PURSUING INNOVATION

2004-05 annual report

CWB
The Canadian Wheat Board

Vision

To unite western Canadian grain farmers as the world-recognized, premier grain marketer.

Mission

The CWB markets and provides quality products and services in order to maximize value to our owners, western Canadian grain farmers.

Contents

2004-05 CWB ANNUAL REPORT SURVEY

We want to hear from you.

As part of our commitment to provide our stakeholders and customers with clear and relevant information, we'd like to know what you think about our annual report.

Please take a few minutes to complete this card and return it to the CWB. Your opinions are important to us and will be used for planning next year's annual report.

Overall (5=excellent, 1=poor)

Information is clear	5	4	3	2	1
Information is relevant	5	4	3	2	1
Easy to read	5	4	3	2	1

The section I found most interesting was (check one):

___ Pursuing Innovation
___ Corporate governance
___ Management discussion and analysis
___ Financial results

I learned something new about the CWB by reading the annual report.

___ Yes
___ No

Length of content in the report

___ Overall, it was too long
___ Overall, it was too short
___ The length was just right

I would have liked to read more about: ______________________

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Other comments or suggestions: ______________________

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I am a:

___ Farmer
___ Domestic customer
___ International customer
___ Financial company
___ Agricultural company
___ Accredited exporter
___ Federal government
___ Provincial government
___ Other

CWB

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CORP COMMUNICATIONS/ANNUAL REPORT
THE CANADIAN WHEAT BOARD
PO BOX 816 STN MAIN
WINNIPEG MB R3C 9Z9

Corporate profile

The CWB markets western Canadian wheat, durum wheat and barley in Canada and throughout the world.

All sales revenue, less marketing costs, is returned to farmers. The CWB is controlled by a board of directors that is comprised of 10 farmer-elected members and five federal government appointees. As a key international grain trader and a major earner of foreign exchange, the CWB and Prairie wheat and barley producers compete successfully with other major players in the grain industry.

Financial highlights

	2004-05	2003-04	2002-03	2001-02	2000-01
Combined pool operating results ($ millions)					
Revenue	**$3,739.3**	$4,136.2	$3,339.9	$4,379.2	$4,220.9
Direct costs	**407.5**	369.7	318.7	384.5	350.5
Net revenue from operations	**3,331.8**	3,766.5	3,021.2	3,994.7	3,870.4
Other income	**163.4**	161.1	132.7	188.5	179.9
Net interest earnings	**53.4**	56.1	54.8	91.6	75.2
Administrative expenses	**(69.2)**	(67.6)	(54.1)	(50.4)	(66.4)
Grain industry organizations	**(1.6)**	(1.8)	(1.8)	(1.7)	(1.7)
Earnings for distribution	**$3,477.8**	**$3,914.3**	**$3,152.8**	**$4,222.7**	**$4,057.4**
Receipts from producers (000's tonnes)					
Wheat	**13 296.3**	12 376.0	8 696.0	13 331.0	13 961.0
Durum	**3 824.0**	3 079.7	3 804.0	3 246.0	3 665.0
Designated barley	**1 752.5**	2 138.4	891.0	2 205.0	2 273.0
Barley (pool A)	**29.0**	–	–	–	–
Barley (pool B)	**468.7**	–	–	–	–
Barley	**–**	844.0	40.0	54.0	454.0
Total	**19 370.5**	**18 438.0**	**13 431.0**	**18 836.0**	**20 353.0**

A message from the chair of the board of directors and the president and CEO

On July 5, 2005, the CWB celebrated its 70th anniversary, marking a significant milestone in the history of Prairie wheat and barley farming. Seven decades ago, farmers sold their grain individually, leaving them vulnerable to the self-interests of railways and multinational grain companies. They grew some of the finest grain available, but the Canadian agricultural landscape meant they could exert little control over the prices they received for their crops.

Creating the CWB allowed farmers to combine their power together under one marketer, while still maintaining their much-valued independence. Selling together through a single desk gave individual farmers collective marketing clout in a world dominated by a handful of large private corporations. It allowed them to compete globally, while still protecting their entrepreneurial spirits.

Over the years, it became evident that the CWB offered other benefits as well. Selling together through a single desk enabled farmers to provide customers with consistent quality and supply, as buyers began to seek out the premium-quality grain that only Western Canada could provide. Long-term sales agreements were signed, providing ready and reliable markets for Prairie wheat and barley.

The CWB also ensured that farmers' individual opinions could be heard together as a collective voice, loud enough to be noticed by agriculture policy-makers. Working together through the CWB has also given farmers a say in agricultural research and plant breeding, so that farmers' profitability is a key consideration in variety development and registration.

But significant anniversaries should do more than mark a journey already taken. The past is the past; it can be learned from and celebrated, but it cannot be changed. More importantly, anniversaries provide an opportunity to measure current situations and take stock of what is needed to succeed in the future.

As the CWB enters its eighth decade, this farmers' marketing organization is not resting on past laurels and reminiscing about times gone by. Instead, we are looking ahead, making innovative changes and embracing original ideas that will ensure the continued competitiveness of western Canadian farmers. Bold ideas are needed as we meet the future – initiatives that preserve the fundamentals of the past, while positioning Prairie farmers to succeed in a changing world.

A major change took place in 1998, when control of the CWB was turned over to those who fund its operations: Prairie farmers. But this is not enough, because farmers continue to face major challenges, including volatile world grain markets, price-depressing foreign subsidies, rising input costs and unrelenting weather patterns.

The CWB is looking ahead, making innovative changes and embracing original ideas that will ensure the continued competitiveness of western Canadian farmers.

One need only look at the 2004-05 crop year to see these challenges play out, as farmers faced a nearly non-existent growing season. Cold spring temperatures were followed by an unexpected and unwelcome snowfall in mid-May. When seeding finally resumed, growth rates were stunted by one of the coldest summers ever recorded. But the worst was yet to come.

On August 20, 2004, an early frost hit vast regions of the Prairies, and farmers worried their bottom lines would suffer significantly. Cold, wet weather followed the early frost, and soggy fields and drenched yards made it difficult for farmers to bring in their crops. In some cases, farmers were forced to abandon harvesting until the following spring.

Challenges, however, can often be met by finding inventive solutions. Ideas can be put into practice that not only solve immediate dilemmas, but provide platforms for sustainable and bountiful futures.

In 2004-05, the CWB successfully pursued a number of innovative ideas designed to help farmers with a difficult crop year. Longer-term programs were also created and key investments were made that will help ensure the lasting futures of Prairie farmers. As you read through this publication, you'll learn more about the CWB's achievements in creating these programs and launching new initiatives that provide farmers with more marketing flexibility and the tools needed to achieve their goals.

However, the journey toward innovation does not end here. We can celebrate our success and enjoy our history, but we must focus our vision on the future – a future where Prairie farmers are fully in charge of their collective marketing organization and where their profitability is the only consideration driving all marketing decisions.

Current World Trade Organization (WTO) negotiations place more urgency on the future positioning and structure of the CWB, because if a final deal is reached, initial payments and borrowings will no longer be guaranteed by the federal government.

Belief in innovation and faith in positive change are needed to ensure the CWB is able to meet the needs of both Prairie farmers and the customers it serves. The CWB has already begun a purposeful march down an evolving path. As we journey forward, we will remember that which served Prairie farmers well in the past and protect these fundamentals, but our vision will be focussed decisively on the future.

Ken Ritter

Ken Ritter
Chair, board of directors

Adrian Measner

Adrian Measner
President and Chief Executive Officer

left: Adrian Measner; right: Ken Ritter

INNOVATION is about being new paths; looking for giving options; adding trailblazing; taking thinking; and investing

INVENTIVE NEW NOVEL OPTIONS VALUE ADVANCED

TRAILBLAZING INITIATIVE ORIGINAL NOTABLE

inventive; investigating novel opportunities; value; being advanced; initiative; using original in notable research.

The CWB is dedicated to pursuing innovation, both through the programs it designs for Prairie farmers and the investments it makes to enhance customer service, which ensures continued demand for the finest wheat and barley grown in the world.

As you continue through these pages, you'll read about some of the activities undertaken and programs designed by the CWB in 2004-05.

While the achievements are both many and memorable, they in no way signal an end point. Pursuing innovation will remain a cornerstone of the CWB's planning, action and activities as we move into the future.

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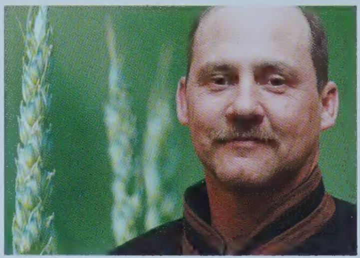
Inventive

- The CWB **modified its Early Payment Option (EPO)** program to improve farmers' ability to get money sooner. The EPO, which allows farmers to receive 80, 90 or 100 per cent of the projected value of their grain within 10 working days of delivery, normally has to be contracted prior to delivery. However, realizing that many farmers faced significant financial challenges in 2004-05, the CWB opted to make a one-time-only modification to the program, giving farmers the option to apply previously delivered grain to new EPOs. This change gave farmers access to much-needed cash flow.

New



- The new **CWB Master Grower awards program** was launched to ensure western Canadian farmers are recognized for their success in producing outstanding wheat and malting barley crops. Each year, farmers are invited to send in samples of their best crops, which are judged on quality, end-use suitability and best management practices. Awardees are designated "Master Growers", receive a prize package and participate in special education programs.

- The CWB **changed the way farmers commit their feed barley** to the CWB by splitting the crop year into two pooling periods instead of one. The first pool runs from August 1 to January 31 and the second from February 1 to July 31. Pool Return Outlooks (PROs) are issued for both pools, giving farmers better price signals on feed barley and improving the CWB's ability to attract deliveries when sales opportunities are favourable.

Novel

- The CWB hedges Fixed Price Contracts (FPCs) and Basis Payment Contracts (BPCs) in futures markets to offset any potential losses caused by undesirable price changes. At times, this practice results in financial gains for the organization, which are then placed in the CWB's contingency fund. In 2004-05, the CWB initiated a one-time-only policy change and **returned hedging gains to farmers,** to help reduce the financial difficulties faced by those unable to fulfil their contracts due to the extreme weather conditions.

Options

- The CWB provided farmers with more marketing choice by **launching a new Producer Payment Option called the Daily Price Contract (DPC).** Through the DPC, farmers can choose a price for their wheat based on daily cash prices derived from U.S. elevator prices. The program gives farmers even more options, while still protecting the marketing clout of the CWB's single desk. Prairie farmers

have the ability to track markets on a daily basis and receive a price that reflects a basket of U.S. elevator prices. The program also gives farmers not located near the U.S. border the opportunity to pursue similar values at their local elevators, meaning all farmers can choose a daily price, regardless of their location.

- The CWB created a new Producer Payment Option designed specifically for organic farmers. The **Organic Spread Contract (OSC)** lets organic farmers settle a final price spread at the time of sale, rather than waiting for final pool returns. This streamlines the farmer's transaction with the CWB and reduces pricing uncertainty, allowing the farmer to know his or her net return on the day of the sale.

Value

- The CWB is dedicated to advocating for the trading rights of western Canadian farmers. In August 2004, the World Trade Organization (WTO) **dismissed an appeal by the U.S.** of an earlier WTO ruling, which once again determined that the CWB operates on a purely commercial basis.

- **The CWB won a decisive victory** in its long-running battle to protect farmers' trading rights. In June 2005, following a CWB appeal, a NAFTA panel ruled that the U.S. International Trade Commission (ITC) erred in finding that imports of Canadian hard red spring (HRS) wheat injure U.S. wheat farmers. Then, in the resulting remand determination released October 5, 2005, **the ITC reversed its original decision,** thus paving the way for western Canadian wheat farmers to resume unfettered trading with the United States.

- The CWB **supported a $25,000 loan to the Farmer Rail Car Coalition (FRCC),** which has the potential to save farmers millions of dollars. The FRCC negotiated to obtain approximately 12,400 hopper cars owned by the federal government. The CWB loan was in addition to a grant of $85,000 and a previous loan of $50,000, which were used to support FRCC negotiating efforts. Now that the deal has been finalized, both loans are repayable to the CWB. Finalizing the deal gives farmers a major role in grain transportation, the single biggest cost in grain marketing.

Advanced

MyCWB e-newsletter for farmers

- The CWB demonstrated its commitment to leading-edge technology **by launching the electronic *MyCWB* news bulletin,** designed specifically for farmers. Sent directly to farmers' e-mail inboxes, *MyCWB* links directly to key information, including PROs, weather highlights and market analysis, with just a single mouse click. This news bulletin represents another step in expanding the CWB's range of online services, which currently include electronic contracting, as well as viewing cash advance account balances and information online, and conducting repayment scenarios.

- The CWB **provided farmers with better access to the weather information they need** by creating a Quick Maps player designed specifically for farmers who use low-bandwidth dial-up Internet connections. The player offers one-click access to maps that show heat units, weekly precipitation, per-cent-of-normal precipitation, accumulated total precipitation, soil-moisture content and growth-stage development. Specialized maps denoting significant weather and crop events, such as frost and heat stress, are also produced when needed. Farmers view the maps by logging into the secure e-services area of the CWB Web site.

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Trailblazing

- **The Pre-delivery Top-up (PDT) program was expanded** in 2004-05 to include Canada Western Red Spring (CWRS) wheat. The PDT gives farmers access to a greater portion of the value of their grain before delivery, which gives them the opportunity to manage cash flow and pay suppliers.

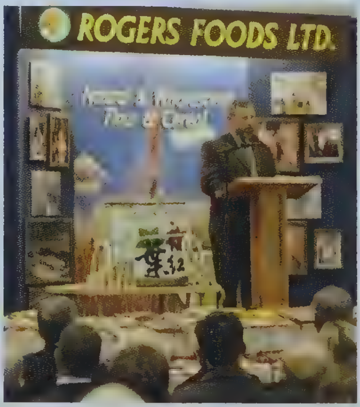
By adding Western Canada's largest wheat class to this program, more farmers are able to access more of their money earlier in the crop year, when they often need it the most.

- The CWB celebrated the **10th anniversary of its Beijing office** during a special event in September 2004. China bought its first wheat shipment from the CWB more than 40 years ago; since that time, the country has purchased more than 120 million tonnes of western Canadian grain. The Beijing office was opened a decade ago to enhance the CWB's ability to provide personal and dedicated customer service to this important market.

Initiative

The CWB signed a **Memorandum of Agreement with China** for the sale of one million tonnes of milling wheat in 2005-06, representing a value of approximately $250 million. The CWB's trading relationship with this important customer began more than 40 years ago; to date, more than 120 million tonnes of Prairie farmers' grain has been shipped to China. Like the Tokyo office, the CWB maintains a sales office in Beijing, China to provide this valued customer with excellent service.

The grand opening by Rogers Foods of a $30-million flour mill in Chilliwack, B.C. provided the CWB with another customer for Prairie farmers' high-quality wheat and proves that **value-added production is growing in Western Canada.** Rogers Foods executives consulted with the CWB to discuss the merits of locating the mill in Western Canada. The CWB's excellent customer service and ability to supply the mill with a high-quality, consistent supply of western Canadian grain played a role in the company's decision to locate in British Columbia. The mill produces 250 tonnes of flour each day.



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The CWB successfully increased customer demand for specific varieties of western Canadian wheat and barley, through a combination of market development and marketing efforts. More than 100 000 tonnes of the barley variety CDC Copeland were sold to maltsters in Canada and China, up from the 5 000 tonnes sold the previous year. CDC Copeland offers Prairie farmers higher yields, and the increased customer demand for this variety puts more money in farmers' pockets.

More than 650 000 tonnes of Canada Western Hard White Spring (CWHWS) wheat were sold to customers in 22 countries, up from 175 000 tonnes in 2003-04.

Increasing customer acceptance of this variety means western Canadian farmers can compete with Australia and the U.S. for white wheat market share.

Both of these crops were offered through CWB Identity Preserved Contract Programs (IPCPs), which provide farmers with incentives for growing specific varieties. This allows the CWB to create market demand for new varieties of grain and ensures customers have access to wheat and barley that meets their specific needs.

Original

The Value-added Incentive Program (VIP) was created to promote the direct delivery of wheat, durum and malting barley to mills and malting plants in Western Canada. Farmers are paid a premium to deliver eligible grain directly to buyers, which means money that would have been paid to grain companies for carrying costs can now be paid directly to farmers. The VIP also benefits millers and maltsters by allowing them to source the quality and quantity of grain needed to meet processing needs.

The CWB celebrated its **70th anniversary** on July 5, 2005. Since its birth seven decades ago, the CWB has sold over one billion tonnes of grain on behalf of western Canadian farmers. The CWB's single desk has made it possible for Prairie farmers to compete globally with large, multinational grain companies and market their grain to more than 70 countries around the globe. The anniversary will be celebrated with a series of farmer, customer and employee events throughout the 2005-06 crop year.

Notable

- **The Canadian Wheat Board Centre for Grain Storage Research** at the University of Manitoba was officially opened in March 2005. Scientists will use the Centre's technology to conduct research into reducing the effects of insect infestation, mould and excess moisture on stored grain. Prairie farmers and CWB customers will all reap the benefits of the facility as it investigates new ways of preserving the high quality of western Canadian wheat and barley. **The CWB invested $400,000 in the facility** from the Special Account (uncashed farmer cheques). Other investors include the Canadian Foundation for Innovation, the Province of Manitoba and the University of Manitoba.

- The CWB invested $330,000 in **fusarium head blight (FHB) research** through a joint funding venture with the Western Grains Research Foundation (WGRF) and Agriculture and Agri-food Canada (AAFC). Funded through the CWB's Special Account (containing uncashed producer cheques), the investment will be directed toward the operation of a fusarium field nursery at the Brandon Research Centre and toward increased deoxynivalenol (DON) testing of collected samples.

For more detail on these initiatives, visit the CWB's Web site at www.cwb.ca

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Corporate governance

The following section reviews the CWB's performance highlights, farmer-controlled board of directors, committee structure and senior management.

CWB performance highlights

The CWB's performance is measured in terms of its achievements in four distinct areas: farmer, customer, mandate and corporate.

Farmer

Strategic Goal: To serve farmers' business needs while significantly increasing farmer support for and trust in the CWB.

Initiatives

- Further develop CWB payment options.
- Engage farmers in the development of the CWB's long-term direction.
- Continue development of long-term feed barley marketing strategies.
- Advance commercialization of variety identification technology (VID).
- Implement biotechnology strategy.

GOALS

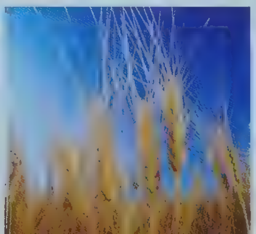
PERFORMANCE

STRATEGY

ACHIEVEMENT

Achievements

- Implemented enhancements to the Fixed Price (FPC) and Basis Payment (BPC) contracts, including extension of sign-up and pricing times beyond harvest.
- Implemented further enhancement of the Early Payment Option (EPO) for farmers.
- Allowed for the payment of futures contract gains on FPCs and BPCs to farmers unable to fulfil their contracts due to extreme weather conditions.
- Engaged farmers in discussion regarding the CWB's long-term direction at the Combine to Customer alumni conference in Calgary.
- Implemented structured payment options to attract appropriate timely delivery of feed barley to meet sales opportunities. Moved to shorter pools and utilized Guaranteed Delivery Contracts (GDCs) and country elevator tenders in conjunction with the enhanced Producer Payment Options (PPOs) to improve linkage between sales opportunities and farmer delivery opportunities.
- Undertook an extensive review of VID research, with agreement among CWB, Canadian Grain Commission (CGC), Agriculture and Agri-Food Canada (AAFC) and other partners on a next-stage research plan. An AAFC research project was approved in January 2005 and has commenced.
- Led stakeholder contributions to federal government consultations on regulatory change.
- Developed a long-term strategy to evaluate ongoing biotechnology opportunities including trait development in genetically modified varieties and engaged in market-preparation activities.



Customer

Strategic Goal: To attract, develop and retain markets by delivering quality products and service to customers worldwide.

Initiatives

- Brand the CWB.
- Develop and formalize long-term transportation and handling strategies.
- Develop and promote the Canada Western Hard White Spring (CWHWS) wheat class.
- Encourage an increased supply of malting barley to meet projected trade opportunities.
- Enhance management of customer relations.
- Develop food safety and certification traceability programs.
- Review and improve the wheat quality control system to ensure added value.
- Play a key role in variety development.

Achievements

- Developed and approved a brand strategy that speaks to farmers, customers and employees. The strategy is aimed at building a stronger relationship with farmers and creating a brand that promotes farmers' premium products, quality and service to worldwide markets.
- Developed a comprehensive framework for a multi-year logistics strategy to enhance the performance of the CWB supply chain.
- Worked with the CGC and industry to establish CWHWS wheat as an official class with a grade schedule. Developed breeder and research guidelines for future CWHWS varieties; also developed a list of critical research projects designed to improve understanding of CWHWS quality. Pursued and achieved an expanded customer base. Provided samples of Snowbird and Kanata varieties to new potential customers.
- Conducted numerous technical exchange programs for customers.
- Created a limited database of selected/selectable quality for barley tendered to the CWB by grain companies for export and for CWB Identity Preserved Contract Programs (IPCPs).
- Completed a malting barley protein payment verification and administration pilot project.
- Worked with other grain industry partners and the Canadian Grain Commission on the completion and release of a report on the potential use of Rapid Visco Analysis (RVA) technology to predict malting barley germination viability.

Customer (continued)

Strategic Goal: To attract, develop and retain markets by delivering quality products and service to customers worldwide.

Achievements (continued)

- Provided funding to support fusarium head blight (FHB) research and breeding in malting barley.
- Launched the first Master Grower awards program for malting barley.
- Completed a customer survey that indicated high levels of satisfaction among customers for CWB products and services. Survey findings were integrated into the planning process. A Customer Relationship Management (CRM) strategy has been defined, and implementation will begin moving forward in the 2005-06 crop year.
- Completed a report on initial on-farm and post-farm Hazard Analysis Critical Control Points (HACCP)-based pilot projects. Developed an implementation plan for on-farm and post-farm HACCP-based programs, including strategies for encouraging farmer uptake of on-farm certification.
- Completed a strategy to manage the presence of mycotoxins and microflora in grain.
- Developed contingency plans for food-safety-related emergency situations.
- Evaluated alternative grain inspection arrangements for shipments from primary elevators.
- Reviewed primary elevator blending incentives and opportunities to align incentives with quality-control requirements.
- Worked with the Western Grains Research Foundation (WGRF) wheat and barley advisory committees to develop breeding priorities for the next 10 years.
- Conducted a series of consultations with breeders in Western Canada to evaluate current trait development against certain criteria, which may create opportunities for future alliances involving the CWB.
- Participated in the inauguration and became a full-participating member of the National Forum on Seed round table.

DEVELOPMENT

AWARDS

PRESENCE

DEFINING

PLANNING

Mandate

Strategic Goal: To strengthen the long-term CWB mandate at home and its support/acceptability in international trade.

Initiatives

- Leverage the new CWB governance structure and policy developments to build a base of support for a farmer-controlled CWB.
- Strengthen the CWB's position in international trade agreements.

Achievements

- Implemented a government relations strategy that seeks to increase knowledge of the CWB's value proposition with federal and provincial legislators, as well as influence policy decisions at the federal level.
- Completed an advocacy program directed at key World Trade Organization (WTO) member countries, explaining the CWB's objectives in reaching an agriculture agreement.
- Organized a consortium of Canadian agri-food exporters that is pressing the federal government to pursue bilateral trade agreements in key markets.

Corporate

Strategic Goal: To achieve excellence in the provision of human resources, financial operations, information technology and other corporate programs and services that support or advance the CWB.

Initiatives

- Implement information technology solutions to facilitate efficiency, effectiveness and change.
- Develop a comprehensive human resources planning process.
- Undertake a Sarbanes-Oxley North review.

Achievements

- Implemented a business intelligence strategy that improved contract execution and pricing analysis.
- Completed weather maps and content management assessment for e-business.
- Implemented the selective sourcing of information technology services to provide for a lower, more flexible cost model and improved competencies.
- Approved a total compensation framework, which is being implemented in the 2005-06 crop year.
- Developed position-level competencies and assigned these to all CWB jobs, to ensure proper alignment of skills and competencies with organizational priorities.
- Developed a corporate learning and development strategy using the competency model to drive focused and value-added employee development and to support employee recruitment and retention.
- Ensured a detailed succession plan is in place for leadership continuity in key positions.
- Undertook a gap analysis regarding the CWB becoming compliant with the new corporate governance requirements of Canadian Bill 198 and the *U.S. Sarbanes-Oxley Act,* although the CWB is not required to meet these requirements. The results were reported to the Audit, Finance and Risk Committee.

Farmer-controlled board of directors

Farmer-directors are elected by permit holders in 10 electoral districts across Western Canada.

The CWB operates as a shared-governance corporation under *The Canadian Wheat Board Act*. The board consists of 15 members, including 10 prominent farmers elected by their peers, four respected leaders from the business community appointed by the federal government and the Chief Executive Officer (CEO). **This unique board structure was created in 1998 to better focus the CWB on farmers' needs** by placing control of the Corporation directly into farmers' hands.

Farmer-directors are elected by permit holders in 10 electoral districts across Western Canada. To ensure continuity on the board, these directors have four-year terms and elections are held every two years, alternating between odd- and even-numbered districts. The 2004 elections were held in districts 2, 4, 6, 8 and 10. A new director was elected in district 10, while incumbent directors were re-elected in the remaining districts.

Prior to the government's appointment of directors, the CWB advises the Minister responsible for the Canadian Wheat Board about its future business requirements to ensure appropriate appointments are made. Appointed directors hold three-year terms. The CEO is appointed based on a recommendation from the board of directors.

1. Allen Oberg (District 5)

Allen and his brother, John, run a grain and cattle operation near Forestburg, Alberta. Allen has served on the boards of numerous organizations throughout his career, including Alberta Wheat Pool, Agricore and the Canadian Cooperative Association.

2. William Cheuk (Appointed)*

William is president of Vancouver-based South Alder Greenhouses Ltd. and Vision Envirotech International Ltd., as well as vice-president of Emerge Venture Capital Inc. He has a bachelor of business administration degree, majoring in accounting, from Simon Fraser University, as well as bachelor and doctorate degrees in chemical and biological engineering from the University of British Columbia. He has led numerous trade missions to Asia and has experience with international trade-dispute resolution.

3. Bill Toews (District 10)

Bill and his wife, Barbara, operate Harambee Farms, a grain and special crops farm at Kane, Manitoba. Bill has a degree in agriculture and a post-graduate degree in soil science. He has served as a director for Keystone Agricultural Producers, the Western Grains Research Foundation and the Manitoba Farm Products Marketing Council. Bill worked in Kenya and Pakistan with the Canadian International Development Agency. He is currently serving on the Manitoba Agri-food Research and Development Council, as well as on a local credit union board.

4. Lynne Pearson (Appointed)

Lynne is dean of the College of Commerce at the University of Saskatchewan and was past chair of the Canadian Standards Association. She has held senior positions with several public and private sector organizations and has served on numerous boards. Lynne holds bachelor's and master's degrees in arts and a bachelor's degree in journalism.

5. Rod Flaman (District 8)

Rod and his wife, Jeanne, farm just south of the Qu'Appelle Valley near Edenwold, Saskatchewan. They produce a variety of field and horticultural crops, including certified organic grain. Educated at the University of Saskatchewan, Rod has served as a director of Terminal 22 at Balcarres, Saskatchewan and the Saskatchewan Fruit Growers Association.

6. Larry Hill (District 3)

Larry farms 4,300 acres near Swift Current, Saskatchewan. He is a graduate of both agricultural engineering and farm business management at the University of Saskatchewan and has worked for Saskatchewan Agriculture. Since 2002, he has chaired the Audit, Finance and Risk Committee. He also serves as chair of the Ad Hoc Trade Committee.

7. Adrian Measner

President and Chief Executive Officer (Appointed)

Raised on a farm near Holdfast, Saskatchewan, Adrian was educated at the University of Saskatchewan. He has 30 years of experience in the grain industry and has held a variety of positions at the CWB. He was also previously involved in a small grain farm north of Winnipeg, Manitoba.

8. James Chatenay (District 2)

Jim operates a family farm near Penhold, Alberta. He is a graduate of Olds Agricultural College and served six years as director of the Alberta Charolais Association.

9. Ross Keith (Appointed)

Ross is the president of a third-generation family farming operation in southern Saskatchewan. He is also president of the Nicor Group property development company and is a former partner in the Regina law firm of MacLean-Keith. He has degrees from the University of Saskatchewan in arts, commerce and law.

10. Dwayne Anderson (District 7)

Dwayne and his wife, Sheila, operate a 2,900-acre farm in the Fosston-Rose Valley area of Saskatchewan. He served 10 years as president and chief executive officer of North East Terminal Ltd., a farmer-owned inland grain terminal and crop input business. Dwayne was also founding chair of the Inland Terminal Association of Canada.

11. Ken Ritter Chair (District 4)

Ken has been the chair of the CWB's board of directors since its inception, and has served on both the National Transportation Agency and the Saskatchewan Surface Rights Arbitration Board. He operates a family farm near Kindersley, Saskatchewan. In addition to farming, he has practiced law and taught school in both Canada and Australia.

12. Bonnie DuPont (Appointed)

A group vice-president at Calgary's Enbridge Inc., Bonnie has expertise in energy transportation and grain handling, and has held senior positions with Alberta Wheat Pool and Saskatchewan Wheat Pool. She continues to provide executive leadership at Enbridge in the areas of corporate governance and human resources management. She holds a bachelor's degree in social work from the University of Regina, with majors in program administration and evaluation and psychology and a master's degree in human resources management from the University of Calgary. She has served as chair of the Governance and Management Resources Committee since 2002.

13. William Nicholson (District 9)

Bill and his family operate a 4,800-acre grain farm near Shoal Lake, Manitoba. Bill has a degree in agricultural engineering and has worked in the farm machinery industry. In addition to serving on the former CWB Advisory Committee, Bill has been a Manitoba Pool delegate, represented farmers on the Prairie Agricultural Machinery Institute Council and is president of his local credit union board. He has served as chair of the board's Strategic Issues Committee since 2003.

14. Ian McCreary (District 6)

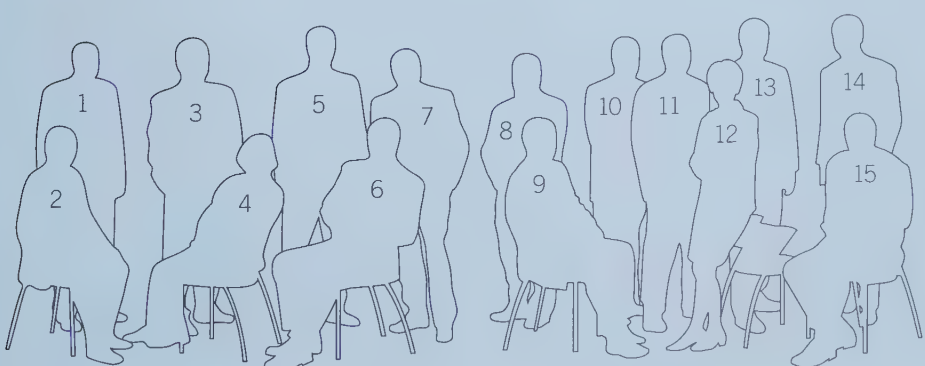
Ian was raised on the mixed farm near Bladworth, Saskatchewan he operates today. He holds a master's degree in agricultural economics and has previously worked at the CWB as a marketing manager and policy analyst. Ian has served as chair of the Farmer Relations Committee for the past two years and previously chaired the Strategic Issues Committee. His international experience includes managing a pilot project on food aid and food markets for the Canadian Foodgrains Bank, which included nine projects through Asia, Africa and Latin America.

15. Art Macklin (District 1)

Art, along with his wife and son, operates a 1,600-acre grain and cattle farm northeast of Grande Prairie, Alberta. Art is active in both church and community, is a past president of the National Farmers Union and served as chair of the former CWB Advisory Committee.

* William Cheuk was appointed to the board on May 5, 2005.

Note: Edward Zinger served on the board from February 5, 2002 to February 5, 2005.



Mandate

The board of directors is responsible for establishing overall strategic direction and reviewing and approving strategic plans, budgets, financial statements, the annual business plan and the borrowing plan. The board also ensures management has appropriate systems in place to manage risk, maintain the integrity of financial controls and oversee information services.

This year, when considering strategic direction, the board thoroughly examined the CWB's ability to maintain its competitive advantage into the future. The directors formulated a sustainable vision for an innovative and forward-looking CWB. Semi-annual planning sessions were held in January and July to consider the CWB's evolution and to ensure its alignment with the business plan and long-term plan.

In addition to the annual business plan, the marketing, communications and government relations plans are board-approved vehicles that enable the directors to evaluate management's progress against set business objectives.

Achievements

During the 2004-05 crop year, the board took significant strides to position the CWB as a leader in the international grain industry. These included:

- **Strategic planning –** To prepare for the possibility of a trading environment without government borrowing and initial payment guarantees, the board reviewed the corporate direction to ensure that the CWB is positioned for the future. A corporate branding plan was also approved to build stronger relationships with farmers and maximize the value of CWB customer service, products and quality. The board approved the establishment of an Ottawa office to enhance the profile of the CWB among elected officials, civil servants, national farm organizations and industry.
- **Accountability –** The board approved the implementation of high-level corporate performance measures to ensure the organization is positioned to fulfil its business goals. To demonstrate the CWB's commitment to integrity, the board approved both a whistleblower policy and an organization-wide code of conduct. The directors also hosted and attended a number of events, including a Combine to Customer alumni conference, farm-leader meetings, district meetings and provincial Corporate Accountability Meetings, all to ensure accurate and transparent communication with farmers. Each event was an opportunity to hear the views of western Canadian farmers.
- **Innovation –** To be more responsive to the needs of western Canadian farmers, the directors supported the development of a new cash-pricing option for wheat and approved an early payment option specific to feed wheat. The board approved the offer of a designated barley basis program and a Value-added Incentive Program (VIP). In addition, the board reviewed and approved an Organic Spread Contract and approved a malting barley protein payment program. The latter two initiatives will be available in the 2005-06 crop year.
- **Research and development –** The board approved the dedication of funds to fusarium research at the Agriculture and Agri-Food Canada Brandon Research Centre, to the University of Alberta Agri-Food Discovery Place and to the Saskatchewan Agrivision Corporation. In addition, the CWB contributed to The Canadian Wheat Board Centre for Grain Storage Research at the University of Manitoba.
- **Advocacy –** The board ensured that CWB interests were fully represented at WTO negotiations. The board approved the implementation of a strategy to foster better relations with the U.S. and improve U.S. understanding of CWB operations. As transportation legislation was being developed, the board ensured that the federal government was aware of the effects proposed changes under Bill C-44 would have on western Canadian farmers.
- **People –** Keeping in mind the need to be both competitive and sustainable, the board reviewed the Corporation's overall approach to compensation. To improve the working environment experienced by CWB employees, substantial building renovations were also approved by the board. The board also ensured that employees had input into staff issues through a comprehensive employee survey.

Leading by example...

With the exception of the president and CEO, all of the directors on the board are independent of management. The board has the following controls and policies in place to demonstrate the CWB's commitment to good governance:

1. An approved code of conduct and set of conflict-of-interest guidelines.
2. Annual conflict-of-interest declarations for all directors.
3. A list of significant policies developed and approved by the board that guide corporate conduct.
4. Candidate conflict-of-interest disclosure statements, which are required for prospective elected directors.
5. Regulations that require director candidates to undertake in writing that, if elected as directors, they will terminate any positions they hold as directors, employees or officers of a grain company or as an employee or officer of, or as a professional consultant to the CWB, a grain company, the Government of Canada or a province.
6. Up-to-date terms of reference for the board of directors, which establish the mandate and responsibilities of the board.
7. Up-to-date terms of reference, which describe the duties of the chair of the board, the CEO, each committee and individual directors.
8. A comprehensive orientation, which is provided for each new director.
9. Continuing professional development opportunities for directors that are provided at the Director's College and through ongoing financial-awareness modules and board education sessions.
10. A process to determine the competencies and skills the board should have and identify any gaps.
11. Regular evaluations of the board's effectiveness, as well as the effectiveness and contribution of each board committee and each individual director. The use of peer assessments was approved in 2004-05 for implementation in 2005-06.
12. A succession plan, which is monitored by the board to ensure that a pool of talent is available and being developed to fill key senior management positions.
13. An in-camera session that is held at each board meeting without management present.
14. An in-camera session that is held at each audit committee meeting with the head of Corporate Audit Services.
15. A policy stating that the CEO is not eligible to be chair of the board.
16. A policy that allows directors to engage the services of an outside advisor with the authorization of the chair of the board.
17. Internal controls that have been assessed and continue to be monitored to ensure integrity and accountability. As part of strategic planning, the board annually reviews and supplements an integrated risk-management summary that identifies and measures external risks and opportunities.

RESEARCH

POLICIES

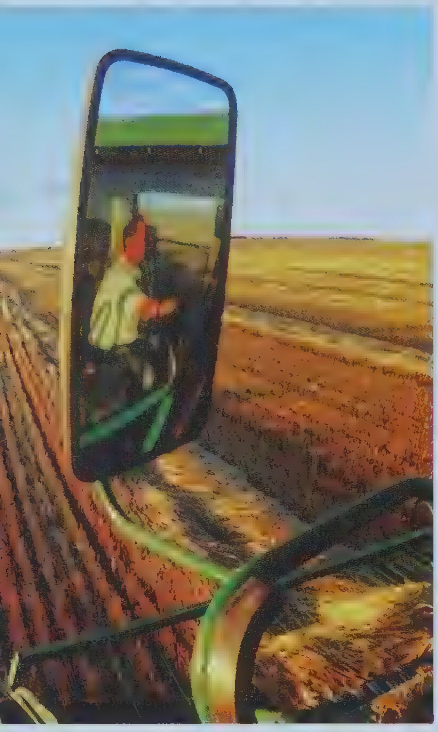
APPROVAL

POSITION

COMMITMENT

Committee structure

The board of directors has four standing committees. In 2004-05, there was also an Ad Hoc Trade Committee, reflecting the significance of international trade issues during this time.



Audit, Finance and Risk Committee

Mandate – Primary responsibilities include the review of financial reporting, accounting systems, risk management and internal controls. It facilitates the conduct of an annual audit, assesses performance measures, reviews annual financial statements and accounting practices, and reviews financial/business risk policies, plans and proposals.

Members – Larry Hill (chair), William Cheuk, Bonnie DuPont, Ian McCreary, Allen Oberg and Lynne Pearson.

Governance and Management Resources Committee

Mandate – Focuses on governance to enhance board and organizational effectiveness. It also assists the board in fulfilling its obligations related to human resources and compensation matters.

Members – Bonnie DuPont (chair), Dwayne Anderson, James Chatenay, William Cheuk, Rod Flaman and Bill Nicholson.

Strategic Issues Committee

Mandate – Ensures that strategic and policy issues are identified and that priorities, time frames and processes to address these issues are recommended to the board. It coordinates the board's input to the CWB's strategic planning process.

Members – Bill Nicholson (chair), Dwayne Anderson, James Chatenay, Rod Flaman, Ross Keith, Art Macklin and Bill Toews.

Farmer Relations Committee

Mandate – Reviews and recommends to the board strategic plans for farmer relations, communications and government relations.

Members – Ian McCreary (chair), Larry Hill, Ross Keith, Art Macklin, Allen Oberg, Lynne Pearson and Bill Toews.

ISSUES

REFLECTION

FOCUS

INPUT

Ad Hoc Trade Committee

Mandate – Reviews and recommends strategies on trade-related issues that could affect the CWB's ability to fulfil its mandate.

Members – Larry Hill (chair), Rod Flaman, Art Macklin, Ian McCreary, Bill Nicholson and Ross Keith.

Compensation table and meetings attended, 2004-05 crop year

Board of directors

		Remuneration			Attendance		
Director	District	Retainer	Per diems	Total	Board meetings	Committee meetings	Industry meetings
Arthur Macklin	1	$ 20,000.00	$ 38,150.00	$ 58,150.00	11	23	40
James Chatenay	2	20,000.00	30,250.00	50,250.00	11	19	18
Larry Hill	3	28,000.00	51,250.00	79,250.00	11	25	48
Ken Ritter	4	60,000.00	42,750.00	102,750.00	11	35	43
Allen Oberg	5	20,000.00	30,000.00	50,000.00	11	21	21
Ian McCreary	6	24,000.00	31,800.00	55,800.00	11	25	34
Dwayne Anderson	7	20,000.00	29,750.00	49,750.00	11	18	31
Rod Flaman	8	20,000.00	29,900.00	49,900.00	11	21	32
William Nicholson	9	24,000.00	31,000.00	55,000.00	11	26	45
William Toews	10	11,666.67	16,000.00	27,666.67	7	12	26
Wilfred Harder	10	8,333.33	8,250.00	16,583.33	4	5	5
William Cheuk	A	5,000.00	5,000.00	10,000.00	4	5	2
Bonnie DuPont	A	20,000.00	13,500.00	33,500.00	11	24	7
Ross Keith	A	20,000.00	17,750.00	37,750.00	11	27	7
Adrian Measner	A	N/A	N/A	N/A	11	N/A	N/A
Lynne Pearson	A	20,000.00	10,825.00	30,825.00	9	18	3
Edward Zinger	A	10,000.00	10,000.00	20,000.00	5	10	5
Total:		**$ 331,000.00**	**$ 396,175.00**	**$ 727,175.00**			

Notes:

A = Appointed

Directors are paid an annual retainer and per diem allowances. The board chair receives an annual retainer of $60,000. All other members receive $20,000, with committee chairs receiving a further $4,000 per committee chaired. A per diem of $500 per full regular meeting day is paid to each member. Directors are reimbursed for all reasonable out-of-pocket and travel expenses. They are also entitled to a maximum of $5,000 per crop year to assist them in communicating with farmers. The annual remuneration limit is $60,000 for directors and $100,000 for the board chair. During 2004-05, the board approved compensation in excess of the limit for Ken Ritter and Larry Hill for additional duties undertaken in relation to trade and other issues. Directors do not participate in any corporate pension plan nor any corporate benefit plan, with the exception of travel accident and travel medical insurance.

Senior management

At the time of writing this report, the president and CEO had announced a restructuring of senior management, which resulted in the creation of a smaller leadership team. The results of the new structure will be reported in the 2005-06 annual report.

The senior management team works in partnership with the board of directors to establish and implement the CWB's vision and mission. The team provides leadership to the CWB, driving the successful implementation of the annual and long-term plans of the organization.

The senior management team is comprised of the executive team, the vice-presidents, the director of Product Development and Marketing Support, general counsel and the corporate secretary. During this crop year there was one vice-president position eliminated in Finance and the vice-president, Logistics vacancy in Operations was filled.

Senior management compensation

	2004-05 actual	2003-04 actual
Salaries	$ 2,608,635	$ 2,454,359
Benefits	1,015,783	1,289,855
Total	**$ 3,624,418**	$ 3,744,214

Executive team

Adrian Measner
President & CEO

Ward Weisensel
Chief Operating Officer

Gordon Menzie
Chief Financial Officer[1]

Margaret Redmond
Executive Vice-President, Corporate Services

Laurel Repski
Vice-President, Human Resources

Senior management

Deanna Allen
Vice-President, Corporate Communications

Graham Paul
Chief Information Officer

Deborah Harri
Corporate Secretary

Victor Jarjour
Vice-President, Strategic Planning and Corporate Policy

Brita Chell
Corporate Controller

Jim McLandress
General Counsel

Wendi Thiessen
Treasurer

William Spafford
Vice-President, Marketing

Earl Geddes
Vice-President, Farmer Relations and Operations

Gord Flaten
Director, Product Development and Marketing Support

Dale Martin
Vice-President, Logistics

[1] As a result of corporate restructuring, Brita Chell has been appointed Chief Financial Officer, effective October 13, 2005.

The senior management team works in partnership with the board of directors to establish and implement the CWB's vision and mission.

Senior management is compensated in accordance with policies approved by the board of directors. In keeping with the *CWB Information Policy* and in a desire to be open and accountable to farmers, the following table sets forth compensation earned by the president and chief executive officer, as well as the three other highest-paid senior officers for the year ended July 31, 2005.

Summary compensation table, 2004-05

Name and principal position[3]	Annual compensation	
	Salary[2]	All other compensation[1]
Adrian Measner President & Chief Executive Office	$ 260,000	–
Ward Weisensel Chief Operating Officer	$ 213,200	–
William Spafford Vice-President, Marketing	$ 193,946	–
Margaret Redmond Executive Vice-President, Corporate Services	$ 181,229	–

Notes:

[1] The CWB has no additional compensation plans beyond base salary. The value of perquisites for each senior officer did not exceed the lesser of $50,000 or 10 per cent of total annual salary.

[2] Reflects salary as of July 31, 2005.

[3] The table reflects four of the top five senior officer salaries for 2004-05, as one individual has withdrawn permission to publish salary information.

Management discussion and analysis

The CWB is a farmer-directed marketing organization that sells four crops on behalf of western Canadian farmers. These are wheat, durum wheat, designated barley and feed barley. Revenue generated from the sale of these four crops (less marketing expenses) is pooled by crop throughout the year and returned to farmers based on deliveries. The following discussion reviews the CWB's supply situation, the global marketing environment, marketing strategy and results for the 2004-05 crop year. The CWB's indirect income and expenses, Producer Payment Options (PPOs), credit sales, funding and commodity and financial risk-management activities are also reviewed. The Financial Statements and accompanying Notes follow.

General crop conditions

Although near-record yields were achieved in the 2004-05 growing season, the grade pattern of the wheat and barley crop was the lowest since the early 1990s. The lower-grade pattern was mainly caused by a severe frost in August and above-normal precipitation in September.

The 2004-05 growing season was one of the coldest on record in the eastern Prairies. Development was generally two-to-three weeks behind normal at the end of June, the result of cool conditions and some planting delays. Warmer temperatures improved crop development in the month of July, while rainfall for that period was close to normal across the Prairies. The combination of moderate temperatures and adequate moisture resulted in above-average yield potential. Temperatures in August dropped to below-normal levels, which continued to delay crop development. Freezing temperatures during the third week of August caused significant damage to immature crops in parts of Saskatchewan and Manitoba. Persistent rains in late August and early September delayed harvest progress across the Prairie region, which further reduced the average quality of wheat and barley crops. However, drier, milder weather in late September and early October resulted in rapid harvest progress; over 80 per cent of the crop was harvested by the middle of October, about three weeks behind normal. Harvesting continued into the month of November, but some crops were left unharvested in northern Saskatchewan, northern Alberta and southeastern Manitoba.

Despite the difficulties with the 2004-05 harvest, wheat and barley production was above average. Total wheat production for Western Canada reached 24 million tonnes; spring wheat production accounted for 18 million tonnes of the total. Durum production reached nearly five million tonnes, while barley production climbed to just over 12 million tonnes. The overall crop quality was poor, with most of the spring wheat crop falling into the lower three grades. The production of barley suitable for malt was also significantly reduced, due to adverse weather conditions.

The wheat pool

	2004-05	2003-04
Receipts (tonnes)	13 296 295	12 375 988
Revenue (per tonne)	$ 190.55	$ 226.91
Direct costs	20.08	21.16
Net revenue from operations	170.47	205.75
Other income	8.29	7.89
Net interest earnings	2.95	3.22
Administrative expenses	(3.57)	(3.67)
Grain industry organizations	(0.08)	(0.10)
Earnings distributed	$ 178.06	$ 213.09

The marketing environment

Western Canadian wheat returns were pressured lower in 2004-05, due to the combined effects of larger world wheat supplies and a stronger Canadian dollar in comparison to the U.S. dollar. World wheat production reached a record 620 million tonnes in 2004-05, up from 554 million tonnes in 2003-04. World ending stocks rose from 132 million tonnes in 2003-04 to just over 143 million tonnes in 2004-05. Dramatic production recoveries were realized in the European Union-25 (EU-25), where production was up 30 million tonnes to a record 136 million tonnes. Production was also up in major Commonwealth of Independent States (CIS) countries (i.e. Russia, Kazakhstan and Ukraine) by 46 per cent over 2003-04 levels, to just over 71 million tonnes (a year-on-year increase of 22 million tonnes). These dramatic production-level increases were equal to two years of Canadian wheat production, or 50 per cent of the world wheat trade. Burdensome supplies from the EU-25 and CIS brought significant price pressure to the mid-to-lower class segment of the wheat market. European Union (EU) French wheat prices collapsed, dropping over $35 US per tonne in 2004-05. Southern-hemisphere wheat supplies were healthy, as Australia and Argentina combined produced 36 million tonnes (down slightly from 40 million tonnes in 2003-04).

China continued to be a significant player in 2004-05, and the CWB was able to secure a solid share of the high-quality segment of this market. Wheat demand in Canada rose slightly in 2004-05, partly due to the declining popularity of the Atkins Diet in North America. Global supplies of high-grade milling wheat declined in 2004-05 versus 2003-04, as the U.S. experienced a wet harvest of Hard Red Winter (HRW) wheat and a delayed harvest for Dark Northern Spring (DNS) wheat. In addition, the grade profile of the Canadian crop declined significantly, due to an early frost and a rainy harvest period. World prices for high-grade milling wheat stayed flat, as mills incorporated a higher percentage of lower-grade wheat into the grist and suppliers drew down high-quality stocks from the previous year.

The strategy

One way the CWB manages marketing risks and price volatility is to price grain throughout the year. By marketing grain on a continuous basis, the CWB is also able to match logistical constraints with producer delivery requirements and customer buying patterns. The CWB employs an integrated approach to sales and risk management for the wheat pool, resulting in pricing that encompasses the entire period from the time the crop is seeded, through to the following harvest. This approach also allows for the flexibility to take advantage of periodic market opportunities.

The essence of the CWB's marketing strategy is constant from year to year and is designed to select a customer mix that will maximize revenue, subject to logistical, market and crop conditions. Marketing the 2004-05 crop to the best advantage required a multi-pronged approach. The first prong focused on targeting the limited supplies of high-grade and protein to maintain market share in key premium markets, which is fundamental to maximizing farmer returns. The second and most critical tactic focused on expanding marketing volumes into the lesser quality demand segments, so that customer requirements tightly matched the quality parameters of the much larger-than-usual supply of milling wheat falling into the middle and lower grades. The final approach focused on feed wheat. Maintaining fluid movements for this grade allowed the CWB to market the significant volumes produced by the August frost and wet harvest conditions to both milling and feed grain markets.

The deliveries

Delivery opportunities for wheat varied depending on the grade and class. All of the wheat committed to the Series A, B and C contracts was accepted, with most of the A series wheat being called before the end of December.

Since the volume of high-protein No. 1 Canada Western Red Spring (CWRS) wheat was limited, delivery calls on this grade and protein were spaced throughout the year, to ensure a consistent supply for premium markets. By mid-December, delivery calls were in place for 60 per cent of all grades of CWRS. These calls were generally followed by contract terminations in an effort to encourage CWRS deliveries into the system throughout the year. By the end of January, 100 per cent of Series A contracts had been called, to support increased marketing efforts on Canada Western Feed Wheat (CWFW). Early calls and terminations were seen on Canada Western Extra Strong (CWES) wheat and Canada Prairie Spring White (CPSW) wheat, with at least 75 per cent of Series A contracts called in October, in order to acquire sufficient quantities at port for sale. Calls on Series A Canada Prairie Spring Red (CPSR) wheat were later than usual, reflecting greater-than-expected supplies and lower demand earlier in the crop year. Early movement was seen for Canada Western Red Winter (CWRW) wheat, with 75 per cent of Series A contracts called in October.

As usual, calls for Canada Western Soft White Spring (CWSWS) wheat deliveries were spread evenly throughout the year, reflecting domestic demand.

In spite of an aggressive approach to delivery calls and terminations, market conditions for the quality of the crop resulted in a slower pace of deliveries compared to previous crop years.

Deliveries of all non-durum wheat totalled 13.3 million tonnes, an increase from 12.4 million tonnes the year before.

Largest volume wheat customers

(2004-05 and 2003-04 sales in 000's tonnes)

The results

Offshore customers purchased 10.61 million tonnes of wheat in 2004-05, equivalent to the amount purchased in 2003-04. For the second consecutive year, the CWB's largest single export customer for wheat was China, which maintained its strong demand for high-quality milling wheat. China purchased 1.64 million tonnes in 2004-05, compared to 1.69 million tonnes in 2003-04. The domestic market purchased 2.73 million tonnes of non-durum wheat in 2004-05, up from 1.69 million tonnes in 2003-04. Japanese purchases decreased in 2004-05 to 856 000 tonnes, versus 1.01 million tonnes in 2003-04. With the sharp increase in CWFW supplies, exports of feed wheat to the Republic of Korea (ROK) rose sharply, from 135 000 tonnes to 1.16 million tonnes, while demand for high-grade milling wheat in that market remained relatively steady. Indonesian purchases rose to 824 000 tonnes, compared to 637 000 tonnes in 2003-04, while the sharp reduction in high-grade, high-protein milling wheat availability reduced sales to the Philippines from 705 000 tonnes to just

237 000 tonnes. Mexican imports in 2004-05 totalled 664 000 tonnes, down slightly from 682 000 tonnes in 2003-04.

The wheat pool returned just over $2.53 billion in gross revenues on 13.3 million tonnes of receipts, or an average gross revenue of $190.55 per tonne, down from the average of $226.91 per tonne the previous year. The dramatic shift in the grade profile due to poor weather during the growing season and harvest, combined with the relative strength of the Canadian dollar versus the U.S. dollar, were two major factors that contributed to the decline in overall returns. However, limited supplies of high-grade, high-protein North American milling wheat, combined with constrained U.S. freight logistics, contributed to much of the strength of final pool returns for high-grade, high-protein milling wheat. The final pool return for No. 1 CWRS with 13.5 per cent protein (net of all costs) was $205 per tonne in store Vancouver/St. Lawrence, compared to $211 per tonne a year ago. The protein spread between 11.5 per cent and 13.5 per cent protein was $15 per tonne, compared to $5 per tonne the previous year, due to the limited supplies of high-protein North American milling wheat, combined with an abundance of lower-grade milling wheat supplies globally. Final pool returns for Nos. 3 CWRS and CPSR fell approximately $27 per tonne compared to a year ago, to end at $166 per tonne and $157 per tonne, respectively.

Direct costs

Direct costs decreased $1.08 per tonne to $20.08, primarily due to lower freight offset by cost increases for inventory storage, other grain purchases and other direct expenses. More specifically:

- Continuing U.S. tariffs against wheat exports, which created a lower U.S. export program compared to prior years, resulting in overall lower U.S. rail-freight costs, despite the fact that freight rates on a per-tonne basis were higher during the year. Overall freight costs were lower, due also to decreased sales volume through the eastern ports.
- Inventory storage costs increased primarily in terminal position resulting from higher stocks and higher storage rates.
- Increases in other grain purchases reflect the higher level of late receipts accepted in 2004-05.
- An increase in other direct expenses due to higher demurrage resulting from increased challenges with the late harvest, rail performance issues, and in securing quality grain, as well as loading rate increases. (The increases in wheat costs were offset by decreases in costs for the other pools with the net effect for all pools being a demurrage cost of $791.)
- In addition, higher premiums were paid in varietal seed programs in 2004-05.

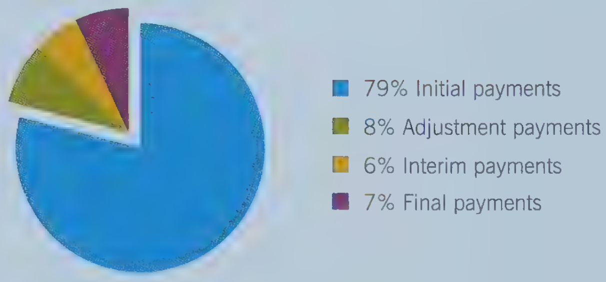
Distribution of earnings

The average sales proceeds available for distribution decreased 16 per cent or $35.03 per tonne to $178.06. Of the amounts returned to pool participants, 87 per cent was distributed by May 25, 2005 in the form of initial and adjustment payments. A further six per cent, or $10.51 per tonne, was distributed as an interim payment on October 25, 2005.

Producer Payment Options (PPOs), like the Fixed Price Contract (FPC) and Basis Payment Contract (BPC), are designed to operate independently of the pool and therefore do not impact the pools' net results. Just under $225 million of sales returns were paid from the wheat pool to the PPO program, representing the return on the specific grades and classes of wheat delivered under the FPC and BPC programs. The PPOs in turn paid farmers at the respective contracted price.

Earnings distributed to farmers

Wheat 2004-05



The durum pool

	2004-05	2003-04
Receipts (tonnes)	3 823 967	3 079 664
Revenue (per tonne)	$ 216.37	$ 250.46
Direct costs	28.33	25.69
Net revenue from operations	188.04	224.77
Other income	4.23	4.99
Net interest earnings	1.97	2.79
Administrative expenses	(3.57)	(3.67)
Grain industry organizations	(0.08)	(0.10)
Earnings distributed	$ 190.59	$ 228.78

The marketing environment

Western Canadian durum returns declined in 2004-05, due to rising global durum supplies and a stronger Canadian dollar. Global durum production set back-to-back production records, with 2004-05 world durum production reaching 39.8 million tonnes (up 2.2 million tonnes over the 2003-04 record). Global durum stocks virtually doubled, rising from 3.3 million tonnes in 2003-04 to 6.4 million tonnes in 2004-05. Rising durum supplies in both the key Mediterranean-demand basin and dominant North American exporting region put pressure on global durum prices. This increase in supplies led to a decline in 2004-05 Spanish durum prices of $23 US per tonne.

The Mediterranean-demand region saw local durum supplies rise over three million tonnes, as the European Union-25 (EU-25) posted a record durum crop of 11.6 million tonnes, and North Africa produced another large durum crop of 5.5 million tonnes. North America saw durum production increase from 6.9 million tonnes in 2003-04 to 7.4 million tonnes in 2004-05. Significantly higher internal production reduced demand for durum imports in both North Africa and Europe in 2004-05.

The strategy

The durum crop experienced frost and wet harvest conditions similar to spring wheat, resulting in a below-average grade pattern, with No. 3 Canada Western Amber Durum (CWAD) wheat making up the majority of supply. The crop was also the largest since 2000-01, with production reaching nearly five million tonnes. The durum pool required marketing strategies similar to the wheat pool. The limited stocks of No. 1 CWAD were stretched to maintain supply to premium markets. However, as the marketing year progressed, the CWB had to negotiate with a number of these buyers to accept No. 2 in place of No. 1 CWAD. As with wheat, there were significant volumes of feed grade durum harvested and the CWB successfully engaged customers for this grain. The biggest challenge and primary focus of CWB marketing efforts was to maximize marketings and market share in segments demanding Nos. 3 and 4 CWAD, in order to market the large crop.

The deliveries

Poor harvest conditions resulted in the majority of the crop grading No. 3 CWAD, with very little of the crop grading No. 1. Durum acceptance varied by contract series and market potential. Sixty per cent of all grades of durum committed on Series A contracts were accepted.

All of the No. 1 CWAD offered on Series B contracts were accepted, reflecting the tight supply and strong demand for high-grade durum. Stronger-than-expected movement opportunities later in the crop year resulted in 20 per cent contract acceptance on Series C contracts for Nos. 2 and 3 CWAD, and 100 per cent on Nos. 1, 4 and 5 CWAD. Delivery opportunities were generally spaced evenly throughout the crop year.

Total deliveries to the durum pool were 3.82 million tonnes, up from 3.08 million tonnes the previous year. In total, the CWB accepted 74 per cent of the total durum offered on farmer contracts.

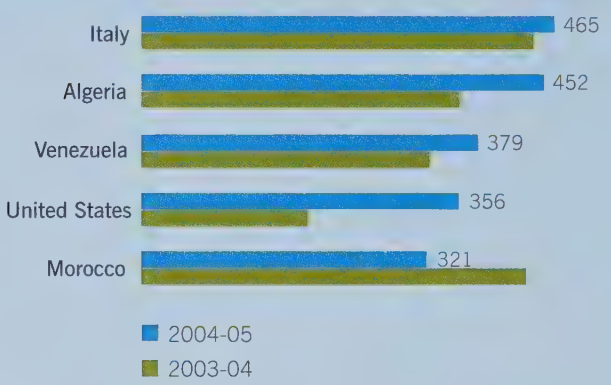
The results

Offshore markets accounted for 3.56 million tonnes of durum sales for the year, compared to 2.87 million tonnes in 2003-04. While demand in North Africa was below average due to a second consecutive year of above-average production, Italy became the single largest export durum customer, accounting for 465 000 tonnes of sales, while Algeria accounted for 452 000 tonnes. The third-largest export durum customer was Venezuela, accounting for 379 000 tonnes of sales. Sales to U.S. customers rose two-fold, to 356 000 tonnes, largely as a result of the U.S. International Trade Commission's (ITC) ruling in September 2004 that removed the tariffs on Canadian durum wheat exports to the United States. Export sales to Morocco were 321 000 tonnes, down from 455 000 tonnes in 2003-04, as supplies of high-grade durum were insufficient to maximize sales to this high-quality market. Sales of durum to the domestic market rose to 320 000 tonnes.

The durum pool returned just over $827.39 million in gross revenues on 3.82 million tonnes of receipts, or an average of $216.37 per tonne, down from the average of $250.46 per tonne the previous year. Final pool returns for No. 1 CWAD wheat with 13 per cent protein fell from $228 per tonne in store Vancouver/St. Lawrence to $214 per tonne, driven by the strength of the Canadian dollar and the large increase in global durum production and high stock levels. The pronounced decline in average western Canadian durum protein content levels and the concurrent tightening of high-protein durum

Largest volume durum customers

(2004-05 and 2003-04 sales in 000's tonnes)



supplies caused the protein spread between 11.5 per cent and 13 per cent to widen to $13 per tonne, compared to almost $4 per tonne a year ago. The final pool return for No. 3 CWAD wheat declined $33 per tonne to $176 per tonne, due to the large increase in the global production of mid-grade durum.

Direct costs

Direct costs increased by $2.64 per tonne to $28.33, due primarily to higher freight costs, terminal handling and grain purchases, offset by an increase in the income effect of inventory adjustment demotions. More specifically:

- Freight costs were higher due to increases in shipments through eastern ports.
- Increased terminal handling, the result of larger pool receipts and a larger proportion of these tonnes moving out of export position.
- Higher levels of grain purchases were made for the 2004-05 crop year, the result of a large volume of producer receipts received subsequent to the 2003-04 crop year's end date and accepted in the 2004-05 year, combined with larger overages reported by grain companies.
- A net demotion of durum stocks reporting during the year. Grain companies were paying for higher grading on deliveries than they received on shipment of the stock, which then led to significant grade demotions. Grade demotions were reported predominantly on No. 1 CWAD wheat.

Other income

The net decrease is primarily attributed to a reduction of overdue charges on late shipments of grain compared to 2003-04, which had experienced a severe short supply of dry-bulk freight, resulting in the late calling of grain by accredited exporters.

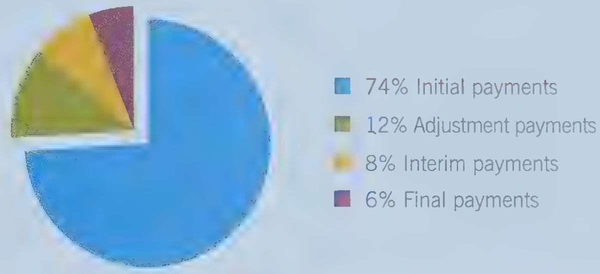
Distribution of earnings

The average sales proceeds available for distribution decreased 17 per cent or $38.19 per tonne to $190.59. Of the amounts returned to pool participants, 86 per cent was distributed by May 25, 2005 in the form of initial and adjustment payments. A further eight per cent, or $14.18 per tonne, was distributed as an interim payment on October 25, 2005.

For producer receipts delivered under the Fixed Price Contract (FPC) program, $84,582 was paid from the pool to the program, representing the final pool return on the specific grades delivered to the durum pool under the FPC program. The payment options program in turn paid farmers at the respective contracted price.

Earnings distributed to farmers

Durum 2004-05



The designated barley pool

	2004-05	2003-04
Receipts (tonnes)	1 752 501	2 138 365
Revenue (per tonne)	$ 177.30	$ 191.24
Direct costs	15.09	9.48
Net revenue from operations	162.21	181.76
Other income	20.02	22.25
Net interest earnings	1.05	0.84
Administrative expenses	(3.57)	(3.67)
Grain industry organizations	(0.13)	(0.13)
Earnings distributed	$ 179.58	$ 201.05

The marketing environment

Western Canadian malting barley returns declined in 2004-05 on the backs of larger supplies in Australia, lower U.S. demand and a rising Canadian dollar. Australia increased its malting barley exports 23 per cent in 2004-05. A reduction in the incidence of Fusarium Head Blight south of the border led to a rise in U.S. malting barley supplies in 2004-05. The rise in local supplies caused U.S. demand for Canadian malting barley to decline markedly in 2004-05, dropping 215 000 tonnes or 53 per cent. These supply factors, combined with a poor harvest in Western Canada, led to a difficult marketing environment for malting barley. One bright spot in the 2004-05 environment was a 34 per cent rise in Chinese demand for malting barley.

The strategy

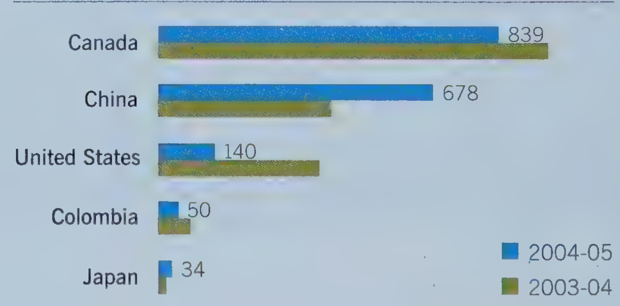
The difficult conditions during harvest resulted in reduced volumes of barley that met malting standards and a correspondingly lower pool size. With a smaller crop, the CWB strategy was to allocate limited supplies to critical higher return customers while moving the crop relatively earlier in the year to avoid potential problems that could result from longer storage. High and volatile rates for ocean freight continued to be a dominant feature in the global malting barley market throughout the 2004-05 marketing campaign, and the CWB sought options to minimize this impact, including the use of container shipping when it was cost effective. Market development efforts continued, primarily focused on increasing the customer acceptance of CDC Copeland in China.

The deliveries

Early frost and poor harvest conditions reduced the amount of selectable two-row barley and drastically reduced supplies of selectable six-row barley. Two-row delivery opportunities were spread evenly throughout the year, due to a large program with China. The poor quality of the Australian crop resulted in increased marketing opportunities in the latter half of the crop year. Total receipts were 1.75 million tonnes, down from 2.14 million tonnes the year before.

Largest volume designated barley customers

(2004-05 and 2003-04 sales in 000's tonnes)



The results

Sales of malting barley to the domestic market totalled 839 000 tonnes, compared to 961 000 tonnes in 2003-04, as production difficulties limited the supply of quality selectable malting barley. China was the single largest export market for malting barley, and sales increased to 678 000 tonnes. Sales to the U.S. declined to 140 000 tonnes, mainly the result of production problems in Western Canada and a larger, improved-quality crop in the U.S. six-row barley-growing region. The CWB successfully maintained its presence in a number of markets where western Canadian malting barley has recently made inroads, including Colombia with 50 000 tonnes and South Africa with 27 000 tonnes. Exports to Japan accounted for 34 000 tonnes.

The designated barley pool returned almost $310.71 million in revenues on 1.75 million tonnes of receipts, generating an average gross revenue of $177.30 per tonne, down from the average of $191.24 per tonne the previous year. Despite the relatively tight supplies of western Canadian malting barley (due to early frost and inclement harvest weather), abundant supplies of Australian and European malting barley and the relative strength of the Canadian dollar had a negative effect on market values. The final pool return for Special Select Two-row barley in store Vancouver/St. Lawrence was $179 per tonne, compared to $200 per tonne a year ago. The final pool return for Special Select Six-row barley was $166 per tonne, compared to $186 per tonne in 2003-04. The spread between No. 1 Canadian Western Feed Barley and Special Select Two-row barley widened from $32 per tonne in 2003-04 to $48 per tonne in 2004-05, compared to the three-year average of $52.42 per tonne.

Direct costs

Direct costs increased $5.61 per tonne to $15.09, primarily due to ocean-freight costs, terminal-handling costs and grain purchases, offset by a reduction in inventory adjustments. More specifically:

- Continuing high ocean-freight rates plus strong ocean-freight demand resulted in overall higher ocean-freight costs, as a significant proportion of the pool was exported where the CWB was responsible for ocean-freight payment.
- Increased terminal handling and selection fees, due to twice as many export tonnes moving through terminal.
- Higher levels of late receipts, which were accepted in the 2004-05 year due to contractual commitments, compared to the 2003-04 crop year.
- Significant decreases in inventory adjustments compared to 2003-04, when substantial inventory promotions were recorded.

Other income

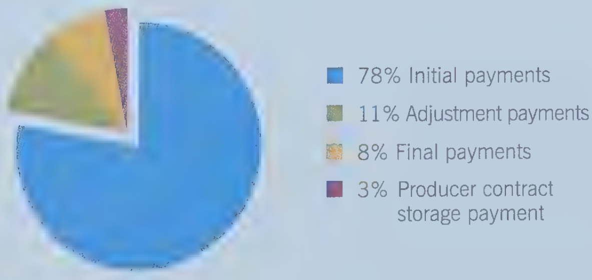
The decrease in Other income is primarily attributed to a significant reduction in freight-adjustment factor recovery, resulting from a decline in tonnes moving through the U.S. and Thunder Bay catchment areas.

Distribution of earnings

The average sales proceeds available for distribution decreased 11 per cent, or $21.47 per tonne, to $179.58. Of the amounts returned to pool participants, 89 per cent was distributed by May 25, 2005, in the form of initial and adjustment payments. In addition, three per cent, or $5.48 per tonne, was distributed as producer contract storage payments.

Earnings distributed to farmers

Designated barley 2004-05



The feed barley pool

	Barley pool A six months ended January 31, 2004-05	Barley pool B seven months ended August 31, 2004-05	Barley pool crop year ended July 31, 2003-04
Receipts (tonnes)	29 022	468 736	844 024
Revenue (per tonne)	$ 153.31	$ 134.73	$ 174.87
Direct costs	89.60	6.50	9.75
Net revenue from operations	63.71	128.23	165.12
Other income	20.76	2.59	0.61
Net interest earnings	85.55	4.83	6.98
Administrative expenses	(3.57)	(3.57)	(3.67)
Grain industry organizations	(0.09)	(0.08)	(0.10)
Earnings for distribution	166.36	132.00	168.94
Transferred to contingency fund	51.34	1.69	–
Earnings distributed	$ 115.02	$ 130.31	$ 168.94

Implementation of shorter pooling period

Under *The Canadian Wheat Board Act* (Section 31), the CWB has the authority to implement shorter pooling periods. On August 9, 2004, the CWB announced that the feed barley crop year would be split into two pooling periods, rather than having one pool for the entire crop year. The two fixed-pooling periods implemented to the CWB's feed barley marketing programs were designed to better meet farmers' needs, providing them with more responsive pooling alternatives. The first pool started on August 1, 2004 and ran to January 31, 2005. The second pool ran from February 1, 2005 to August 31, 2005. Nine Guaranteed Delivery Contracts (GDCs) and delivery periods were offered during the crop year. The first four contracts were part of pool A, while contracts five to nine made up pool B. In total, farmers signed 4,331 contracts, totalling almost 507 000 tonnes.

Feed barley pool A

The marketing environment

During the first half of the 2004-05 crop year, returns available to western Canadian feed barley producers in the international marketplace declined markedly, due to a sharp rise in barley supplies among competitors. Barley production in the EU-25 rose by 14 per cent or 7.5 million tonnes, reaching 62.3 million tonnes in 2004-05, resulting in increased barley exports from the region. Ukrainian feed barley production and exports also rose markedly in 2004-05, settling at 11.1 million tonnes (up 60 per cent from 2003-04) and 4.3 million tonnes (up 186 per cent from 2003-04) respectively. The large offshore supplies of feed barley depressed world prices, making Canadian supplies generally not price-competitive in export markets through the pool A marketing period. Pool A Canadian feed barley sales were limited by this extremely competitive offshore environment.

The strategy

The first six months of 2004-05 did not present opportunities to originate and market significant volumes of feed barley offshore, as export values were depressed relative to domestic values. The combination of aggressive competition in export markets and high ocean-freight costs rendered the export market unattractive through this period and farmers focused on the domestic market or held onto their barley, waiting for improved prices.

The deliveries

Export feed barley prices were very low during the pool A period, due to an over-abundance of world feed grain supplies and depressed world prices. This situation, combined with continually high ocean-freight rates, made deliveries into this pool generally less attractive to western Canadian farmers than the domestic feed market. Therefore, a very small pool resulted, with 29 022 receipted tonnes.

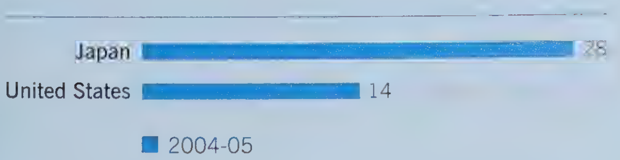
The results

The CWB sold all of the feed barley delivered by farmers, including some late-receipt-tonnage and rejected malting barley in export markets for competitive values. Factoring in these additional grain purchases, the feed barley pool totalled 42 760 tonnes. The limited sales were divided between the Japanese market, which accounted for 28 400 tonnes of sales, and U.S. customers who purchased 14 200 tonnes.

In total, the feed barley pool A returned almost $4.45 million in gross revenues on 29 022 tonnes of receipts, or an average of $153.31 per tonne.

Largest volume feed barley pool A customers

(2004-05 sales in 000's tonnes)



Direct costs

The small pool size of the 2004-05 pool A caused greater volatility in the per-tonne rate calculated. As such, direct costs reflect a per-tonne cost of $89.60, which is primarily due to other grain purchases consisting of overages and late receipts totalling 13 738 tonnes. The net margin return realized on these purchased tonnes was distributed to the pool participants.

Other income

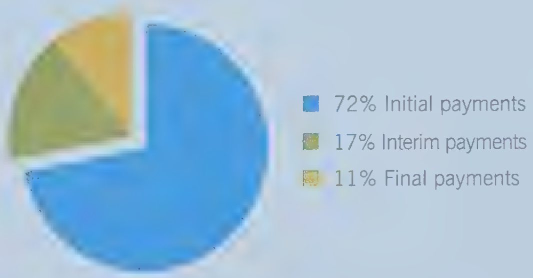
A relative increase in sales to the U.S. resulted in an increase in rail-freight recovery, one of the main components of Other income. Rail-freight recovery is the recovery of the freight deducted from cash tickets by CWB agents, where the grain was shipped to destinations other than terminal locations.

Distribution of earnings

The average sales proceeds available for distribution were $166.36 per tonne. Of the amounts returned to pool participants, 72 per cent was distributed in the form of initial payments. A further 17 per cent, or $20 per tonne, was distributed as an interim payment on May 31, 2005.

Earnings distributed to farmers

Feed barley pool A 2004-05



Feed barley pool B

The marketing environment

The last half of the 2004-05 crop year saw a dramatic improvement in both the prices and sales of western Canadian feed barley in the international market. A drought in Spain dramatically curtailed the European Union Commission's exports of feed barley in the latter part of 2004-05. In addition, feed barley production in both Ukraine and Russia declined. Reduction in supplies among these two competitors, in conjunction with lower ocean-freight rates, allowed the CWB to take advantage of rising global feed barley prices. Significant sales volumes were contracted in the latter half of the year, primarily to the Middle East.

The strategy

The positive shift in the global market fundamentals for feed barley in early summer 2005, including a significant softening in ocean-freight rates, created an opportunity for the CWB to trade significant volumes of feed barley for export. The improved prices also coincided with promising new crop development, so farmers' interest in marketing some of their supplies to the CWB for the export market was higher. The strategy was straightforward – take advantage of any windows of opportunity to originate and market feed barley to the extent farmer deliveries allowed. In addition to dividing barley into two shorter pool periods, the CWB also successfully relied on GDCs with farmers and tendering with companies to assure supplies. These tools enabled the CWB to know precisely how much farmers wished to market and to respond to buyer interest with assured, timely delivery and execution, right through the chain from farmers to customer.

The deliveries

A series of positive changes to global feed barley fundamentals in the latter half of the year resulted in stronger feed barley prices, which in turn translated into stronger projected returns for pool B versus pool A. This encouraged many farmers to market feed barley through the CWB rather than sell into the domestic market. The use of GDCs also provided farmers greater certainty regarding timing of delivery. As a result, total feed barley receipts for pool B were 468 736 tonnes.

The results

As described above, a series of factors in the international feed barley market presented trading opportunities to the CWB during the latter half of the marketing year, while farmer interest in marketing feed barley through the CWB dramatically increased the size of pool B. Sales to Middle Eastern destinations represented 177 000 tonnes of total feed barley exports in 2004-05, while total sales volume to Saudi Arabia was 156 000 tonnes and Japan represented 117 000 tonnes of sales. The U.S. also provided an outlet for pool B feed barley sales, accounting for 17 000 tonnes.

In total, the feed barley pool B returned almost $63.15 million in gross revenues on 468 736 tonnes of receipts, or an average of $134.73 per tonne. Final pool returns for No. 1 Canada Western Feed Barley in store Vancouver/St. Lawrence yielded $131.68 per tonne.

Largest volume feed barley pool B customers

(2004-05 sales in 000's tonnes)

Direct costs

Direct costs reflect a per-tonne cost of $6.50, primarily due to lower terminal handling costs resulting from fewer free on board (FOB) sales and decreased storage, as average country and terminal storage time was significantly less.

Other income

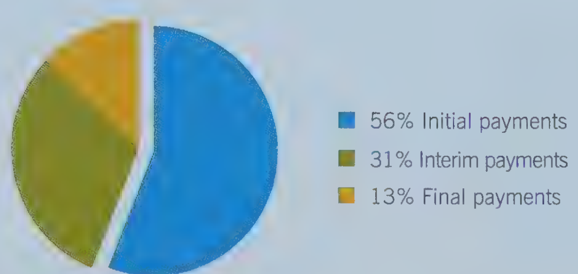
A relative increase in sales to the U.S. resulted in increased rail-freight recovery, one of the main components of Other income. Rail-freight recovery is the recovery of the freight deducted from cash tickets by CWB agents where the grain was shipped to destinations other than terminal locations.

Distribution of earnings

The average sales proceeds available for distribution were $132 per tonne. Of the amounts returned to pool participants, 56 per cent was distributed in the form of initial payments. A further 31 per cent, or $40.02 per tonne, was distributed as an interim payment on October 25, 2005.

Earnings distributed to farmers

Feed barley pool B 2004-05



Indirect income and expenses

Administrative expenses

Administrative expenses increased $2 million, or three per cent from the previous crop year, to $70 million. This increase was primarily due to the new Information and Technology (I&T) outsourcing agreement and resulting transition of $3 million. The I&T outsourcing costs were partly offset by savings experienced in human resources and computer services of $1.1 million. Further decreases in human resources resulted from increased vacancies and corporate review savings, for a total decrease of $2.1 million. Other significant increases included the depreciation for new capital projects ($900,000); resumption of normal travel, training and other expenses ($700,000); and advertising expenses ($600,000), largely due to new corporate initiatives.

Grain industry organizations

The CWB continued to provide support for organizations that benefit, both directly and indirectly, western Canadian grain farmers. During 2004-05, the CWB contributed $1.6 million to the operations of the Canadian International Grains Institute (CIGI) and the Canadian Malting Barley Technical Centre (CMBTC). CIGI and CMBTC play an integral role in the CWB's marketing and product development strategy by providing technical information and educational programs to customers.

The CWB continued to provide support for organizations that benefit, both directly and indirectly, western Canadian grain farmers.

Net interest earnings

(Dollar amounts in 000's)		2004-05		2003-04
Interest on credit sales				
Revenue on credit sales receivables	$	**150,628**	$	131,520
Expense on borrowings used to finance credit sales receivables		**106,821**		78,305
Net interest on credit sales		**43,807**		53,215
Interest revenue on pool account balances		**5,609**		410
Other interest				
Revenue		**5,870**		5,321
Expense		**1,902**		2,821
Net other interest revenue		**3,968**		2,500
Total net interest earnings	$	**53,384**	$	56,125

Net interest earnings of $53.38 million were due primarily to the net interest earned on amounts owed to the CWB on credit grain sales made under the Credit Grain Sales Program (CGSP) and the Agri-food Credit Facility (ACF). When the CWB sells grain on credit, it must borrow an equal amount to facilitate payments to farmers until the credit is repaid to the CWB. The CWB is able to borrow at interest rates lower than those rates received by the CWB from the credit customer. As a result, the CWB earns an interest "spread".

During periods when interest rates are trending downwards or upwards, the spread will widen or narrow because of the differences in term between the receivable and the related borrowing. The spread margin earned during the current year remained stable compared to 2003-04.

Although the spread margin did not fluctuate, interest revenue and expense increased due to higher interest rates. This was offset by lower U.S. exchange rates, and reduced credit receivables balances, as countries such as Brazil, Mexico, Peru, Poland, Russia and Zambia made sizeable repayments during the year.

The interest on the pool account balances has increased as a result of the net undistributed earnings in wheat being more favourable in the current crop year.

Other interest revenue from customers, which includes receipt of sales proceeds on non-credit sales, will fluctuate year-over-year, as the number of days outstanding on these arrangements will typically range between one and 10. Expenses, primarily from financing costs such as treasury fees and bank charges, make up the main portion of other interest expense.

Credit sales

(Dollar amounts in 000's)	2004-05	2003-04
Credit sales		
Agri-food Credit Facility	$ 118,669	$ 153,155
Credit assumed by others	118,669	149,965
Total credit sales	237,338	303,120
Total sales	$ 3,739,344	$ 4,136,168

Credit programs

The Government of Canada provides repayment guarantees on CWB credit sales. New credit proposals are recommended by the CWB for review and approval by the government. Acting within credit limits and terms approved by the government, the CWB works with individual customers to structure credit facilities. These credit arrangements are structured according to commercial terms and can be an important factor in foreign markets. During 2004-05, credit sales totalled $237.3 million, representing 6.3 per cent of total sales, compared to $303.1 million, or 7.3 per cent, of sales in the previous year. The CWB uses the following two credit programs:

Credit Grain Sales Program (CGSP)

The CGSP was established to facilitate CWB grain sales made on credit to customers who can provide a sovereign guarantee of repayment from their central bank or ministry of finance. During the year ended July 31, 2005 and the previous year, there were no grain sales under the CGSP.

The balance receivable at July 31, 2005 was $3.9 billion. The payment of principal and interest has been rescheduled over periods ranging from five to 25 years under terms agreed to by the Government of Canada. Included in the rescheduled amount was $23.3 million to be paid to the CWB by the government under debt-reduction arrangements, where the government had assumed certain amounts that otherwise would have been paid by the debtor government.

During the year ended July 31, 2005, Iraq's overdue obligation was rescheduled. Under the terms of the rescheduled agreement, the Government of Canada paid a significant amount of Iraq's debt on their behalf in September 2005. A further payment is expected from the Government of Canada by December 31, 2005 and another on December 31, 2008. In total, the Government of Canada will pay 80 per cent of the total debt rescheduled. The balance of the debt is due from Iraq.

In July 2005, Russia prepaid $590 million, which represents the Canadian equivalent of $486 US million of its debt.

Since the Government of Canada guarantees repayment of 100 per cent of the principal and interest of the CGSP receivables, the CWB makes no allowance for credit losses (see Financial statement note 3).

Agri-food Credit Facility (ACF)

The ACF was established to facilitate CWB grain sales made on credit, directly or through accredited exporters, to commercial (non-government) customers around the world. The Government of Canada, together with the CWB, evaluates each transaction. During the year ended July 31, 2005, $118.7 million of grain was sold under the ACF program, compared to $153.2 million during the previous year.

The balance receivable at July 31, 2005 from sales made under this program was $49.9 million. The Government of Canada guarantees a declining percentage of the receivables under this program based on the repayment period, with the CWB assuming the residual risk. The portion of credit risk assumed by the CWB under this program at July 31, 2005 was $1 million. This is considered collectable, therefore there was no allowance made for credit losses (see Financial statement note 3).

Credit assumed by others

The CWB may partner with other parties in providing credit to CWB customers. In these cases, the CWB receives payment for the other party's portion of the credit transaction. The other party then assumes the risk of non-payment by the customer on their portion of the credit extended. During the year ended July 31, 2005, credit provided by other parties under these arrangements totalled $118.7 million, compared to $150 million the previous year.

Producer Payment Options

Providing farmers choice and flexibility is a priority of the farmer-controlled board of directors. Beginning in 2000-01, the board of directors introduced a number of innovative Producer Payment Options (PPOs) that have been expanded or enhanced every crop year. The 2004-05 crop year was no exception, with enhancements to the Fixed Price Contracts (FPCs) and Basis Payment Contracts (BPCs) to make both programs easier for farmers to use. As well, the Early Payment Option (EPO) and Pre-delivery Top-up (PDT) programs were expanded.

The most significant change was the extension of the sign-up deadline for the FPC and BPC for wheat and the FPC for barley and durum wheat until October 31, 2004, a full three months later than the July 31 deadline that had been in place since the program's inception. This enables farmers to choose a fixed price or basis level later in the crop year when quantity and quality of grain is known. This allows the farmers to more accurately analyze their pricing options. The enhancements follow a series of consultations held with farmers on how to strengthen the PPOs and build on the work done since the PPOs were first introduced five years ago.

While the PPOs offer farmers unprecedented opportunities to exercise control over the marketing of their wheat and barley, they are structured so that the integrity of the CWB pool accounts is maintained. Price pooling, which provides farmers a return that reflects sales made throughout the crop year, is an effective price risk-management tool that farmers continue to value and support.

Programs

Three types of PPOs and a PDT program are available to Prairie farmers through the CWB.

1. The FPC: Introduced in the 2000-01 crop year, the FPC enables farmers to lock in a price for all or a portion of their wheat, durum or barley from February 28 to October 31. The wheat FPC is comprised of the December basis plus the relevant futures price. The durum and barley FPC is comprised of the Pool Return Outlook (PRO), less a discount. Program costs are entirely covered by the farmers who use it. Farmers get full payment for their grain when it has been both delivered and priced. They receive no further payments from the pool accounts for these deliveries. During the 2004-05 crop year, 5,870 farmers signed an FPC and delivered 948 535 tonnes of wheat, 388 tonnes of durum, 46 tonnes of designated barley and 109 tonnes of feed barley.

2. The BPC: Launched at the same time as the FPC, the BPC enables farmers to lock in the pooled basis and futures at different times during the program. When pricing their grain, farmers get the futures price that they have selected plus the basis that they locked in. Farmers get full payment for their grain when it has been both delivered and priced. They receive no further payments from the pool accounts for these deliveries. The BPC was extended to all classes of wheat (excluding durum) for the 2001-02 crop year. In 2004-05, 912 farmers signed a BPC and a total of 222 376 tonnes of wheat was delivered.

3. The EPO: Introduced in the 2001-02 crop year, the EPO enables farmers to receive 80, 90 or 100 per cent of the PRO, less a discount for risk, time value of money and administration costs, at time of delivery. Farmers receive the initial payment less the usual freight and elevation charges at that time. The CWB then issues an additional payment to bring the total to 80, 90, or 100 per cent of the locked-in PRO less the discount. Farmers are eligible for any future adjustment, interim and final payments that increase the price of these deliveries beyond the value that they have locked in. This program therefore not only serves to help farmers meet their cash flow needs, but also gives them the opportunity to set a floor price for their grain.

   In the 2004-05 crop year, the program was expanded to include a 100 per cent EPO for wheat and feed barley and an 80 per cent EPO for durum and designated barley. The 80 per cent early payment value was added to provide farmers with more cash flexibility at lower discount costs. Introduced due to frost and poor harvest conditions, the Feed Grade EPO offers farmers increased cash flow following delivery and a floor price for feed grade wheat and durum.

A total of 11,690 farmers signed EPO contracts, delivering 3 081 520 tonnes.

2004-05 EPO programs

	80%	90%	100%
Wheat	✓	✓	✓*
Feed barley	✓	✓	✓*
Designated barley	✓*	✓	
Durum	✓*	✓	

*New for 2004-05

4. The PDT program: The program was first introduced in the 2003-04 crop year, but was limited to non-Canada Western Red Spring (CWRS) wheat classes. In the 2004-05 crop year the program was expanded to include CWRS. Wheat growers who have taken a fall cash advance can apply for an additional $20 per tonne for their grain, to be paid prior to delivery. Participants are responsible for the costs of the program, including risk management, administration costs and time value of money. Repayment is received through subsequent payments made by the farmer, in accordance with the farmer's deliveries. PDT payments of $704,140 were issued to 67 farmers.

Financial results

1. FPC/BPC

In 2004-05, there was a dramatic increase in the number of tonnes delivered under the FPC and BPC programs, rising from 159 253 tonnes in 2003-04 to 1 171 454 tonnes in 2004-05. Deliveries made under FPCs and BPCs are outside of the pool accounts, with all pool returns (initial, interim and final payments) that otherwise would have been paid to farmers, instead paid to these programs. This amounted to $224,985,944 for wheat, $84,582 for durum, $8,030 for designated barley and $12,723 for barley. When other revenue, like liquidated damages and program expenses (including net hedging results after resulting distributions, interest and administrative expenses), is accounted for, the FPC and BPC programs generated a combined surplus of $31,792,174.

Of the total combined surplus, the wheat FPC/BPC program contributed $31,776,656. There were two significant events that resulted in the wheat surplus.

The CWB hedges to manage risks associated with the FPC and BPC programs. This year, futures markets have generally trended downwards, resulting in hedging gains ($57 million for wheat). Ordinarily, these funds would be placed in the CWB's contingency fund.

During the 2004-05 crop year, many western Canadian farmers faced significant losses due to frost and poor harvest conditions. At its September 2004 meeting, the CWB's farmer-controlled board of directors voted to return gains to farmers who were unable to fulfil their contracts.

By returning hedging gains on FPCs and BPCs, the CWB hoped to assist those farmers hardest hit by the year's exceptional circumstances. The one-time-only policy decision enabled farmers to benefit from any futures gains, net of basis change, that they may have achieved on their FPC or BPC. Hedging gain payments of $5,059,642 were issued to 1,347 farmers.

Another factor impacting the wheat FPC/BPC results was the basis levels which cannot be hedged. Basis levels increased dramatically after the rain downgraded much of the North American harvest. This change in basis levels occurred after much of the 2004-05 program was priced by producers, creating gains of approximately $35 million net in the wheat FPC/BPC program.

2. EPO

Tonnes delivered to EPO contracts continued to increase in 2004-05 from 2 652 369 tonnes in 2003-04 to 3 081 520 tonnes in 2004-05. The EPO discount, charged to farmers for risk, time value of money and program administration costs, was $3,980,567. After accounting for liquidated damages charged for non-delivery, net interest expense and net hedging results, a surplus of $3,269,402 was generated.

Contingency fund

The Canadian Wheat Board Act (The Act) provides for the establishment of a contingency fund. The contingency fund can be populated through a variety of mechanisms, including the results of operations of the Producer Payment Options (PPO) program or other sources of revenue received in the course of operations. Since the establishment of the fund in 2000-01, barley interest earnings have contributed a significant portion of the cumulative balance (see Financial statement note 14). One of the purposes of the fund is to cover deficits or surpluses that may occur as a result of the operation of the PPO programs. *The Act* also requires that all revenue generated, less the costs of operations, be distributed through the pool accounts. *The Contingency Fund Regulation* provides that the balance of the fund cannot exceed $50 million.

If the CWB were to follow past practice and transfer the $35 million surplus from the PPO programs to the contingency fund, the balance of the fund would exceed this $50 million maximum. To comply with this maximum limit requirement, $7.5 million was transferred to pool results to be distributed to pool participants and $27.5 million was transferred to the contingency fund (see Financial statement note 14).

One of the purposes of the fund is to cover deficits or surpluses that may occur as a result of the operation of the PPO programs.

Funding

The CWB is committed to minimizing borrowing costs and maintaining access to money by exploring new borrowing opportunities, as well as expanding and diversifying its investor base.

Under *The Act*, and with the approval of the federal Minister of Finance, the CWB is empowered to borrow money by any means, including the issuing, re-issuing, selling and pledging of bonds, debentures, notes and other evidences of indebtedness.

All borrowings of the Corporation are unconditionally and irrevocably guaranteed by the Minister of Finance from time of issuance to the date of maturity. Therefore the credit ratings of these debt issues reflect the top credit quality of the Government of Canada. Long-term and short-term ratings of the CWB's debt are currently as follows: Moody's Investors Service Senior Unsecured Ratings (Aaa/P-1), Standard & Poor's Ratings Group Issue Credit Ratings (AAA/A-1+) and Dominion Bond Rating Service Debt Ratings (AAA//R-1(high)).

Standard & Poor's Ratings Group also provides long-term and short-term Issuer Credit Ratings on the CWB of AAA/A-1+. This opinion focuses on the CWB's capacity and willingness to meet its financial commitments as they come due, but does not take into account the creditworthiness of the CWB's guarantor, the Minister of Finance. The CWB's long-term Issuer Credit Rating of AAA was placed on negative outlook on November 14, 2005 reflecting future changes that could occur as a result of World Trade Organization (WTO) negotiations with regard to the Minister of Finance's guarantee on the CWB's debt and on the government's commitment to guarantee initial payments to farmers. This negative outlook is not associated with the CWB's current debt issues, which are unconditionally and irrevocably guaranteed by the Minister of Finance.

The CWB borrows money to finance grain inventories, accounts receivable from credit sales and administrative and operating expenses, and to administer the Government of Canada's advance payment programs. The CWB borrows in a variety of currencies, but mitigates currency risk by converting borrowings into either Canadian or U.S. dollars to match the assets being financed.

The CWB manages multiple debt portfolios with total outstanding ranging between $4 billion and $5 billion. These include:

- Domestic commercial paper program (the "Wheat Board Note" program);
- U.S. commercial paper program;
- Euro commercial paper program;
- Euro medium-term note program; and
- Domestic medium-term note program.

Although the notes issued under the Euro medium-term note program have an original term to maturity of up to 15 years and are therefore considered long-term debt for reporting purposes, many of these notes are redeemable by the CWB before maturity due to embedded call features.

Financial risk management

The CWB seeks to minimize risks related to the financial operations of the Corporation. The CWB actively manages exposures to financial risks and ensures adherence to approved corporate policies and risk-management guidelines.

Market risk

Market risk is the exposure to movements in the level or volatility of market prices that may adversely affect the CWB's financial condition. The market risks the CWB is exposed to are commodity, foreign-exchange and interest-rate risk.

Commodity-price risk is the exposure to reduced revenue for the CWB due to adverse changes in commodity prices. The CWB uses exchange-traded futures and option contracts to mitigate commodity-price risk inherent to its core business for the wheat pool.

The CWB's commodity risk-management program involves an integrated approach that combines sales activity with exchange-traded derivatives to manage risk of an adverse movement in the price of grain between the time the crop is produced and the time the crop is ultimately sold to customers. Exchange-traded derivatives are used to complement the CWB's selling activity to provide flexible pricing alternatives to customers, such as basis contracts, and to engage in limited discretionary pricing activity when necessary. The CWB also manages the commodity-price risk related to the various Producer Payment Options (PPOs) offered to Prairie farmers that provide pricing choices and cash-flow alternatives.

Foreign-exchange risk is the exposure to changes in foreign-exchange rates that may adversely affect Canadian dollar returns to the CWB. Sales made by the CWB are priced either directly or indirectly in U.S. dollars, resulting in exposure to foreign-exchange risk.

To manage foreign-exchange risk, the CWB hedges foreign-currency revenue values using derivative contracts to protect the expected Canadian dollar proceeds on sales contracts. In addition, the CWB manages foreign-exchange risk as it relates to various payment options offered to Prairie farmers.

Interest-rate risk is the exposure to changes in market interest rates that may adversely affect the CWB's net interest earnings. The CWB's interest-rate risk arises from the mismatch in term and interest rate re-pricing dates on the CWB's interest-earning assets and interest-paying liabilities. The spread between the interest-earning assets and interest-paying liabilities represents net interest earnings, which are paid to farmers annually.

Credit risk

Credit risk is the risk of potential loss, should a counterparty fail to meet its contractual obligations. The CWB is exposed to credit risk on non-guaranteed credit sales accounts receivable, as well as credit risk on investments and over-the-counter derivative transactions used to manage the CWB's market risks.

Accounts receivable from credit sales

The CWB sells grain under two government-guaranteed export credit programs: the Credit Grain Sales Program (CGSP) and the Agri-food Credit Facility (ACF). Under the ACF, the CWB assumes a portion of credit risk. There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. For more information on credit sales, see the Credit Grain Sales Program sections on page 43 and Financial statement note 3.

Investments

The CWB uses short-term investments for the purpose of cash management, adhering to requirements of *The Act*, the CWB's annual borrowing authority granted by the Minister of Finance and applicable government guidelines. The CWB manages investment-related credit risk by transacting only with highly-rated counterparties.

Derivative transactions

The CWB enters into master agreements with all counterparties to minimize credit, legal and settlement risk.

The CWB transacts only with highly-rated counterparties who meet the requirements of the CWB's financial risk-management policies. These policies meet or exceed the Minister of Finance's credit policy guidelines.

The CWB's commodity futures and option contracts involve minimal credit risk, as the contracts are exchange-traded. The CWB manages its credit risk on futures and option contracts by dealing through exchanges, which require daily mark-to-market and settlement.

Liquidity risk

Liquidity risk is the risk of being unable to meet corporate obligations. In the normal course of operations, the CWB's diversified funding programs provide sufficient liquidity to meet daily cash requirements. The CWB may hold highly-rated short-term investments to ensure that sufficient funds are available to meet debt obligations. Additionally, the CWB maintains lines of credit with financial institutions to provide supplementary access to funds.

Operational risk

Operational risk is the risk of loss resulting from a breakdown in administrative procedures and controls or any aspect of operating procedures. The CWB's operational risk-management philosophy encourages an environment of effective operational risk discipline. Operational risk-management activities include segregation of duties, cross-training and professional development, disaster recovery planning, use of an integrated financial system, internal and external audits and an independent risk-control and reporting function.

Outlook

The 2005-06 growing season was warmer than 2004-05, which was one of the coldest on record. However, weather again presented western Canadian farmers with many challenges. Extreme spring moisture in the eastern Prairies and parts of southern Alberta prevented some farmers from seeding their crop. The growing season was above average, with good yield prospects throughout the Prairies. The quality of the wheat and barley crops was hurt by the cool, wet conditions experienced in August and September, which delayed harvest and resulted in downgrading due to mildew, sprouting and bleaching. Overall, the quality of the 2005-06 wheat, durum, and barley crops was better than 2004-05; however, crop quality still remains significantly below average.

Looking ahead to the coming marketing year, there are indications that world wheat market conditions are improving. World wheat production is projected to decline to 605 million tonnes (the third largest on record) from the 2004-05 record crop of 620 million tonnes. Much of the decline in wheat production is projected to occur in the EU-25 and Argentina. Canada and the U.S. are expected to produce crops similar in size to 2004-05. Australia is the only major exporter that is expected to see a rise in wheat production.

Prices for higher-quality milling wheat are expected to stay firm in the upcoming season. For the second year in a row, production problems were experienced in the U.S. and Canada. The U.S. Northern Plains experienced a severe Fusarium Head Blight outbreak on a significant portion of its crop in 2005-06. In addition, Canada experienced wet and cool harvest conditions through much of the growing region.

Any improvement in the price environment for lower- to medium-quality wheat is anticipated to be limited by export competition from the European Union (EU) and the Commonwealth of Independent States (CIS). The 2005-06 wheat crop was nine per cent larger in Russia, Ukraine and Kazakhstan, compared to 2004-05. In addition, the EU is still trying to work through burdensome wheat stocks amounting to almost double last year's level.

The 2005-06 global durum crop is projected to decline over five million tonnes to 34.3 million tonnes. Smaller crops in the key importing regions of North Africa and Europe are expected to improve global durum demand. Positive market developments in North Africa and Europe are expected to be tempered by large EU stocks. In addition, larger crops in North America are expected, with total production forecast at eight million tonnes. Overall, an extremely competitive global durum market is expected in the coming year, which will limit both price appreciation and sales.

The barley market environment is anticipated to improve over last year. Global barley production is expected to decline 16 million tonnes to 134 million tonnes in 2005-06. Smaller barley crops are expected in both Europe and the CIS. The U.S. is expected to produce the smallest barley crop since 1936. A drought in Spain and feed barley production problems in both Ukraine and Russia have reduced global feed barley supplies and are expected to create opportunities for Canadian feed barley. A healthy sign for the malting barley market is the forecasted growth in Chinese demand (2.1 million tonnes) for the second consecutive year. With Australia projected to harvest a significantly larger barley crop in 2005-06, demand for both feed and malting barley could be negatively impacted.

Forward-looking information

Certain forward-looking information contained in this annual report is subject to risk and uncertainty because of the reliance on assumptions and estimates based on current information. A number of factors could cause actual results to differ from those expressed. They include, but are not limited to: weather; changes in government policy and regulations; world agriculture commodity prices and markets; shifts in currency values; the nature of the transportation environment, especially for rail within North America and by ocean vessel internationally; and changes in competitive forces and global political/economic conditions, including continuing WTO negotiations with regard to the Minister of Finance's guarantee on the CWB's debt and on the government's commitment to guarantee initial payments to farmers. In addition, the long-term real return bond rates continued to decline over the past year to new levels, resulting in significant pressures on pension plan solvency valuations.

Financial results

Management's responsibility for financial reporting

The financial statements of the Canadian Wheat Board included in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the board of directors. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and reflect the results for the 2004-05 pool accounts, Producer Payment Options and the financial status of the Corporation at July 31, 2005.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by an internal audit department that conducts periodic reviews of different aspects of the Corporation's operations.

The board of directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The board of directors exercises this responsibility through the Audit, Finance and Risk Committee of the board of directors, which is composed of directors who are not employees of the Corporation. The Audit, Finance and Risk Committee meets with management, the internal auditors and the external auditors on a regular basis, and the external and internal auditors have full and free access to the Audit, Finance and Risk Committee.

The Corporation's external auditors, Deloitte & Touche LLP, are responsible for auditing the transactions and financial statements of the Corporation and for issuing their report thereon.

Adrian Measner

Adrian Measner
President & Chief Executive Officer

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Brita Chell
Chief Financial Officer

Winnipeg, Manitoba
November 17, 2005

Auditors' report

To the board of directors of the Canadian Wheat Board

We have audited the financial statements of the Canadian Wheat Board which include the balance sheet as at July 31, 2005 and the combined statement of pool operations and statement of distribution to producers for the 2004-2005 pool accounts, the statements of operations and statements of distribution to producers for the 2004-2005 pool accounts for wheat and durum for the period August 1, 2004 to completion of operations on July 31, 2005, for designated barley for the period August 1, 2004 to completion of operations on August 31, 2005, and for barley for the period August 1, 2004 to January 31, 2005 and for the period February 1, 2005 to August 31, 2005, the statements of operations for wheat, durum, designated barley and barley producer payment options for the period August 1, 2004 to July 31, 2005, the statement of cash flow for the year ended July 31, 2005, and the statement of administrative expenses for the year ended July 31, 2005. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Canadian Wheat Board as at July 31, 2005 and the results of its operations and the cash flow for the periods shown in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
November 17, 2005

Balance sheet

AS AT JULY 31 (dollar amounts in 000's)	2005	2004
ASSETS		
Accounts receivable		
Credit programs (Note 3)	$ 3,926,944	$ 5,311,103
Non-credit sales	12,450	27,510
Advance payment programs (Note 4)	333,794	318,776
Prepayment of inventory program	38,914	24,880
Other	50,000	61,389
	4,362,102	5,743,658
Inventory of grain (Note 5)	827,153	871,269
Deferred and prepaid expenses (Note 6)	40,187	10,093
Capital assets (Note 7)	47,659	51,436
Total assets	**$ 5,277,101**	**$ 6,676,456**
LIABILITIES		
Borrowings (Note 8)	$ 4,150,528	$ 5,482,135
Accounts payable and accrued expenses (Note 9)	156,290	149,611
Liability to agents (Note 10)	508,595	542,513
Liability to producers – Outstanding cheques	20,703	15,122
Liability to producers – Undistributed earnings (Note 11)	386,752	462,321
Provision for producer payment expenses (Note 12)	1,741	2,241
Special account (Note 13)	3,880	4,060
Contingency fund (Note 14)	48,612	18,453
Total liabilities	**$ 5,277,101**	**$ 6,676,456**

Approved by the board of directors:

Ken Ritter
Chair, board of directors

Adrian Measner
President and Chief Executive Officer

Combined pool accounts

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2005	2004
STATEMENT OF POOL OPERATIONS*		
Receipts (tonnes)	**19 370 521**	**18 438 041**
Revenue	**$ 3,739,343**	**$ 4,136,168**
Direct costs		
Freight	181,200	190,437
Terminal handling	114,623	98,999
Inventory storage	64,490	52,654
Country inventory financing	5,489	7,216
Inventory adjustments (Note 15)	(18,818)	(3,982)
Other grain purchases (Note 16)	25,603	7,877
Other direct expenses (Note 17)	34,957	16,505
Total direct costs	**407,544**	**369,706**
Net revenue from operations	**3,331,799**	**3,766,462**
Other income (Note 18)	163,441	161,124
Net interest earnings	53,384	56,125
Administrative expenses (Note 19)	(69,212)	(67,581)
Grain industry organizations	(1,647)	(1,836)
Earnings for distribution	**$ 3,477,765**	**$ 3,914,294**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION		
Earnings distributed to pool participants		
Receipts (tonnes)	**17 701 418**	**18 278 788**
Initial payments on delivery	$ 2,513,799	$ 2,892,700
Adjustment payments	302,499	509,209
Interim payment	200,947	258,787
Final payment	223,440	204,961
Producer contract storage payments	9,608	15,984
Rebate on producer cars	102	139
Total earnings distributed to pool participants	3,250,395	3,881,780
Transferred to contingency fund		
Undistributed earnings (Note 14)	2,278	–
Non-pool Producer Payment Options program		
Receipts (tonnes)	**1 171 454**	**159 253**
Sales returns paid to payment program	225,092	32,514
Total distribution	**$ 3,477,765**	**$ 3,914,294**

Wheat pool

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2005		2004	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**13 296 295**		**12 375 988**	
Revenue	**$ 2,533,640**	**$ 190.55**	**$ 2,808,294**	**$ 226.91**
Direct costs				
Freight	106,535	8.01	134,766	10.89
Terminal handling	83,784	6.30	77,799	6.28
Inventory storage	40,763	3.07	32,074	2.59
Country inventory financing	3,649	0.27	4,913	0.40
Inventory adjustments (Note 15)	(8,683)	(0.65)	(5,056)	(0.41)
Other grain purchases (Note 16)	10,800	0.81	5,023	0.41
Other direct expenses (Note 17)	30,201	2.27	12,545	1.00
Total direct costs	**267,049**	**20.08**	**262,064**	**21.16**
Net revenue from operations	**2,266,591**	**170.47**	**2,546,230**	**205.75**
Other income (Note 18)	110,338	8.29	97,673	7.89
Net interest earnings	39,211	2.95	39,858	3.22
Administrative expenses (Note 19)	(47,508)	(3.57)	(45,362)	(3.67)
Grain industry organizations	(1,076)	(0.08)	(1,179)	(0.10)
Earnings for distribution	**$ 2,367,556**	**$ 178.06**	**$ 2,637,220**	**$ 213.09**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	**12 125 384**		**12 217 247**	
Initial payments on delivery	$ 1,690,743	$ 139.44	$ 1,989,659	$ 162.86
Adjustment payments	178,271	14.70	347,732	28.46
Interim payment	127,387	10.51	144,204	11.80
Final payment	146,115	12.05	123,148	10.08
Rebate on producer cars	54	–	78	0.01
Total earnings distributed to pool participants	2,142,570	176.70	2,604,821	213.21
Non-pool Producer Payment Options program				
Receipts (tonnes)	**1 170 911**		**158 741**	
Sales returns paid to payment program	224,986	192.15	32,399	204.10
Total distribution	**$ 2,367,556**	**$ 178.06**	**$ 2,637,220**	**$ 213.09**

Durum pool

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2005		2004	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**3 823 967**		**3 079 664**	
Revenue	**$ 827,390**	**$ 216.37**	**$ 771,330**	**$ 250.46**
Direct costs				
Freight	60,621	15.85	46,311	15.04
Terminal handling	23,978	6.27	13,533	4.39
Inventory storage	17,676	4.62	12,047	3.91
Country inventory financing	1,113	0.29	1,305	0.42
Inventory adjustments (Note 15)	(10,361)	(2.71)	(962)	(0.31)
Other grain purchases (Note 16)	10,596	2.77	2,419	0.79
Other direct expenses (Note 17)	4,759	1.24	4,487	1.45
Total direct costs	**108,382**	**28.33**	**79,140**	**25.69**
Net revenue from operations	**719,008**	**188.04**	**692,190**	**224.77**
Other income (Note 18)	16,187	4.23	15,359	4.99
Net interest earnings	7,576	1.97	8,589	2.79
Administrative expenses (Note 19)	(13,663)	(3.57)	(11,288)	(3.67)
Grain industry organizations	(309)	(0.08)	(293)	(0.10)
Earnings for distribution	**$ 728,799**	**$ 190.59**	**$ 704,557**	**$ 228.78**

* Excludes operation of Producer Payment Options program

	2005 Total	2005 Per tonne	2004 Total	2004 Per tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to pool participants				
Receipts (tonnes)	**3 823 579**		**3 079 194**	
Initial payments on delivery	$ 540,979	$ 141.48	$ 487,124	$ 158.20
Adjustment payments	88,275	23.09	77,437	25.15
Interim payment	54,223	14.18	93,275	30.29
Final payment	45,192	11.82	46,560	15.12
Rebate on producer cars	45	0.01	53	0.02
Total earnings distributed to pool participants	728,714	190.58	704,449	228.78
Non-pool Producer Payment Options program				
Receipts (tonnes)	**388**		**470**	
Sales returns paid to payment program	85	217.99	108	230.00
Total distribution	**$ 728,799**	**$ 190.59**	**$ 704,557**	**$ 228.78**

Designated barley pool

FOR THE CROP YEAR ENDED AUGUST 31 (dollar amounts in 000's)	2005		2004	
	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*				
Receipts (tonnes)	**1 752 501**		**2 138 365**	
Revenue	**$ 310,711**	**$ 177.30**	**$ 408,950**	**$ 191.24**
Direct costs				
Freight	13,753	7.85	9,504	4.44
Terminal handling	5,136	2.93	2,181	1.03
Inventory storage	5,068	2.89	6,195	2.90
Country inventory financing	684	0.39	900	0.42
Inventory adjustments (Note 15)	196	0.11	2,085	0.97
Other grain purchases (Note 16)	2,458	1.40	289	0.14
Other direct expenses (Note 17)	(833)	(0.48)	(889)	(0.42)
Total direct costs	**26,462**	**15.09**	**20,265**	**9.48**
Net revenue from operations	**284,249**	**162.21**	**388,685**	**181.76**
Other income (Note 18)	35,095	20.02	47,574	22.25
Net interest earnings	1,848	1.05	1,790	0.84
Administrative expenses (Note 19)	(6,262)	(3.57)	(7,838)	(3.67)
Grain industry organizations	(222)	(0.13)	(284)	(0.13)
Earnings for distribution	**$ 314,708**	**$ 179.58**	**$ 429,927**	**$ 201.05**

* Excludes operation of Producer Payment Options program

	2005 Total	2005 Per tonne	2004 Total	2004 Per tonne
STATEMENT OF DISTRIBUTION				
Earnings distributed to producers				
Receipts (tonnes)	**1 752 455**		**2 138 365**	
Initial payments on delivery	$ 245,659	$ 140.18	$ 327,636	$ 153.22
Adjustment payments	35,953	20.52	46,829	21.90
Interim payment	–	–	14,557	6.81
Final payment	23,477	13.40	24,918	11.65
Producer contract storage payments	9,608	5.48	15,984	7.47
Rebate on producer cars	3	–	3	–
Total earnings distributed to pool participants	314,700	179.58	429,927	201.05
Non-pool Producer Payment Options program				
Receipts (tonnes)	**46**		**–**	
Sales returns paid to payment program	8	174.57	–	–
Total distribution	**$ 314,708**	**$ 179.58**	**$ 429,927**	**$ 201.05**

Barley pool

FOR THE CROP YEAR ENDED AUGUST 31 (dollar amounts in 000's)	2005				2004	
	Barley pool A six mo's ended January 31		Barley pool B seven mo's ended August 31		Barley pool crop year ended July 31	
	Total	Per tonne	Total	Per tonne	Total	Per tonne
STATEMENT OF POOL OPERATIONS*						
Receipts (tonnes)	**29 022**		**468 736**		**844 024**	
Revenue	**$ 4,449**	**$ 153.31**	**$ 63,153**	**$ 134.73**	**$ 147,595**	**$ 174.87**
Direct costs						
Freight	(21)	(0.73)	312	0.66	(143)	(0.17)
Terminal handling	342	11.79	1,383	2.95	5,486	6.49
Inventory storage	199	6.86	784	1.67	2,338	2.77
Country inventory financing	10	0.34	33	0.07	98	0.12
Inventory adjustments (Note 15)	23	0.79	7	0.02	(49)	(0.06)
Other grain purchases (Note 16)	1,552	53.46	197	0.42	146	0.17
Other direct expenses (Note 17)	495	17.09	335	0.71	362	0.43
Total direct costs	**2,600**	**89.60**	**3,051**	**6.50**	**8,238**	**9.75**
Net revenue from operations	**1,849**	**63.71**	**60,102**	**128.23**	**139,357**	**165.12**
Other income (Note 18)	602	20.76	1,219	2.59	517	0.61
Net interest earnings	2,483	85.55	2,266	4.83	5,888	6.98
Administrative expenses (Note 19)	(104)	(3.57)	(1,675)	(3.57)	(3,093)	(3.67)
Grain industry organizations	(2)	(0.09)	(38)	(0.08)	(80)	(0.10)
Earnings for distribution	**$ 4,828**	**$ 166.36**	**$ 61,874**	**$ 132.00**	**$ 142,589**	**$ 168.94**

* Excludes operation of Producer Payment Options program

STATEMENT OF DISTRIBUTION						
Earnings distributed to producers						
Receipts (tonnes)	**28 913**		**468 736**		**843 982**	
Initial payments on delivery	$ 2,385	$ 82.46	$ 34,033	$ 72.61	$ 88,280	$ 104.60
Adjustment payments	–	–	–	–	37,211	44.09
Interim payment	578	20.00	18,759	40.02	6,752	8.00
Final payment	368	12.75	8,288	17.68	10,334	12.24
Rebate on producer cars	–	–	–	–	5	0.01
Total earnings distributed to producers	3,331	115.21	61,080	130.31	142,582	168.94
Transferred to contingency fund						
Undistributed earnings (Note 14)	1,484	51.34	794	1.69	–	–
Non-pool Producer Payment Options program						
Receipts (tonnes)	**109**		–		**42**	
Sales returns paid to payment program	13	116.72	–	–	7	169.21
Total distribution	**$ 4,828**	**$ 166.36**	**$ 61,874**	**$ 132.00**	**$ 142,589**	**$ 168.94**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2005	2004
WHEAT PROGRAMS		
FIXED PRICE CONTRACT/BASIS PRICE CONTRACT		
Receipts (tonnes)	**1 170 911**	**158 741**
Revenue		
Sales returns paid to program	$ 224,986	$ 32,399
Net hedging activity	57,249	–
Liquidated damages	1,185	132
Net interest	43	9
	283,463	32,540
Expense		
Contracted amounts paid to producers	246,327	32,005
Net hedging activity	–	2
Administrative expense (Note 19)	299	255
	246,626	32,262
Surplus on program operations	**36,837**	**278**
Hedging gain distribution	**(5,060)**	**–**
Net surplus on program operations	**$ 31,777**	**$ 278**
EARLY PAYMENT OPTION		
Receipts (tonnes)	**1 854 711**	**1 181 213**
Revenue		
Program discount	$ 3,219	$ 1,831
Liquidated damages	110	204
	3,329	2,035
Expense		
Pool returns less than contracted price	299	–
Net hedging activity	305	1,757
Net interest	205	137
	809	1,894
Net surplus on program operations	**$ 2,520**	**$ 141**
Transfer to pool participants (Note 18)	**(7,354)**	**–**
TOTAL WHEAT PROGRAMS (Note 14)	**$ 26,943**	**$ 419**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)		2005		2004
DURUM PROGRAMS				
FIXED PRICE CONTRACT				
Receipts (tonnes)		**388**		**470**
Revenue				
Sales returns paid to program	$	85	$	108
Net hedging activity		3		–
Liquidated damages		5		1
		93		109
Expense				
Contracted amounts paid to producers		77		94
Net hedging activity		–		9
Net interest		–		1
Administrative expenses (Note 19)		–		1
		77		105
Net surplus on program operations	**$**	**16**	**$**	**4**
EARLY PAYMENT OPTION				
Receipts (tonnes)		**531 306**		**199 937**
Revenue				
Program discount	$	379	$	546
Liquidated damages		23		47
		402		593
Expense				
Net hedging activity		123		356
Net interest		16		46
		139		402
Net surplus on program operations	**$**	**263**	**$**	**191**
Transfer to pool participants (Note 18)		**(60)**		**–**
TOTAL DURUM PROGRAMS (Note 14)	**$**	**219**	**$**	**195**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED AUGUST 31 (dollar amounts in 000's)		2005		2004
DESIGNATED BARLEY PROGRAMS				
FIXED PRICE CONTRACT				
Receipts (tonnes)		**46**		**–**
Revenue				
Sales returns paid to program	$	8	$	–
		8		–
Expense				
Contracted amounts paid to producers		8		–
		8		–
Net surplus on program operations	**$**	**–**	**$**	**–**
EARLY PAYMENT OPTION				
Receipts (tonnes)		**255 682**		**555 616**
Revenue				
Program discount	$	185	$	626
Net hedging activity		34		–
Liquidated damages		9		48
		228		674
Expense				
Net hedging activity		–		208
Net interest		9		81
		9		289
Net surplus on program operations	**$**	**219**	**$**	**385**
Transfer to pool participants (Note 18)		**(47)**		**–**
TOTAL DESIGNATED BARLEY PROGRAMS (Note 14)	**$**	**172**	**$**	**385**

Statement of Producer Payment Options program operations

FOR THE CROP YEAR ENDED AUGUST 31 (dollar amounts in 000's)	2005		2004
	Barley pool A six mo's ended January 31	Barley pool B seven mo's ended August 31	Barley pool crop year ended July 31
BARLEY PROGRAMS			
FIXED PRICE CONTRACT			
Receipts (tonnes)	109	–	42
Revenue			
Sales returns paid to program	$ 13	$ –	$ 7
Net interest	–	–	1
	13	–	8
Expense			
Contracted amounts paid to producers	13	–	5
Net hedging activity	–	–	1
	13	–	6
Net surplus on program operations	$ –	$ –	$ 2
EARLY PAYMENT OPTION			
Receipts (tonnes)	11 811	428 010	715 603
Revenue			
Program discount	$ 20	$ 177	$ 1,468
Net hedging activity	50	–	88
Liquidated damages	–	3	27
Net interest	17	17	–
	87	197	1,583
Expense			
Net hedging activity	–	15	–
Producer contract storage	–	–	254
Liquidated damages	2	–	
Net interest	–	–	101
	2	15	355
Net surplus on program operations	$ 85	$ 182	$ 1,228
Transfer to pool participants (Note 18)	–	(39)	–
TOTAL BARLEY PROGRAMS (Note 14)	$ 85	$ 143	$ 1,230

Statement of cash flow

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)	2005	2004
Increases (decreases) of cash during the year		
Cash flow from operating activities		
Pool earnings for distribution	$ 3,477,765	$ 3,914,293
Producer Payment Options program operations	12,104	1,820
Pre-delivery Top-up program	4	–
Interest earned on non-program contingency fund balance	315	278
Add non-cash items		
Depreciation on CWB hopper cars	2,634	2,650
Depreciation on other capital assets	10,239	9,388
Adjustment related to 2002-03 EPO program	–	(1,289)
Cash flow from operating activities before changes in working capital	3,503,061	3,927,140
Changes in non-cash working capital		
Accounts receivable, excluding credit sales	(2,602)	136,035
Inventory of grain	44,116	250,672
Deferred and prepaid expenses	(30,095)	25,214
Accounts payable and accrued expenses	6,678	10,174
Liability to agents	(33,918)	(334,302)
Liability to producers for outstanding cheques	5,583	11,374
Provision for producer payment expenses	(500)	(373)
Special account	(180)	(888)
	3,492,143	4,025,046
Cash flow from financing activities		
Decrease in borrowings	(1,331,607)	(949,337)
	(1,331,607)	(949,337)
Cash flow from investing and other activities		
Accounts receivable – Credit programs	1,384,158	592,476
Purchase of capital assets	(9,305)	(9,869)
Proceeds from sale of capital assets	209	277
	1,375,062	582,884
Cash distributions		
Prior year undistributed earnings	(462,321)	(208,595)
Current year distributions prior to July 31	(2,826,852)	(3,417,892)
Non-pool Producer Payment Option payments	(246,425)	(32,106)
	(3,535,598)	(3,658,593)
Net increase in cash and cash equivalents	–	–
Net cash position at beginning of year	–	–
Net cash position at end of year	$ –	$ –

Statement of administrative expenses

FOR THE CROP YEAR ENDED JULY 31 (dollar amounts in 000's)		2005		2004
Human resources	$	38,208	$	40,355
Office services		3,459		3,388
Professional fees		10,181		7,033
Computer services		2,549		3,691
Facilities		1,745		2,150
Travel		2,262		1,823
Advertising & promotion		1,928		1,307
Other		838		726
Training		546		376
Depreciation		10,239		9,388
Recoveries		(1,965)		(2,229)
Total administrative expenses (Note 19)	**$**	**69,990**	**$**	**68,008**

Notes to financial statements

(dollars in thousands)

1. Act of incorporation and mandate

The Canadian Wheat Board (the Corporation) was established by *The Canadian Wheat Board Act,* a statute of the Parliament of Canada. On June 11, 1998, Bill C-4, *An Act to Amend The Canadian Wheat Board Act* continued the Corporation as a shared governance corporation, without share capital, effective December 31, 1998.

The Corporation was created for the purpose of marketing, in an orderly manner, in inter-provincial and export trade, grain grown in Western Canada. The Corporation is headed by a board of directors, comprised of 10 producer-elected and five government-appointed members. The Corporation is accountable for its affairs to both western Canadian farmers through its elected board members and to Parliament through the Minister Responsible for the Canadian Wheat Board.

The Corporation is exempt from income taxes pursuant to Section 149(1)(d) of the *Income Tax Act.*

2. Summary of significant accounting policies

These financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP), which require the Corporation to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingencies. These estimates and assumptions are based on management's best knowledge of current events and actions that the Corporation may undertake in the future. Actual results could differ from those estimates.

Results of operations

The financial statements at July 31 include the final operating results for all pool accounts and programs for the crop year ended July 31, where marketing operations have been completed thereafter. In determining the financial results for such pools and programs, the accounts of the Corporation at July 31 include:

Revenue – Revenue from grain sales is recognized in the accounts at the time that shipment is made, at a value defined in the sales contract

Inventory – Inventory of grain on hand at July 31 is valued at the amount of sales proceeds that is ultimately expected to be received as sale proceeds.

Direct operating expenses and income subsequent to July 31 – A provision is made for direct operating expenses and income occurring subsequent to July 31 relating to the marketing of grain inventories on hand at July 31. The amounts, which primarily relate to inventory storage, inventory financing and grain movement are accrued to the appropriate operating statement account and are reflected in the Balance sheet as net accounts payable.

Allowances for losses on accounts receivable

Accounts receivable from credit programs – The Government of Canada guarantees the repayment of the principal and interest of all receivables resulting from sales made under the Credit Grain Sales Program (CGSP) and a declining percentage, based on the repayment term of the credit, of all receivables resulting from sales made under the Agri-food Credit Facility (ACF). The Corporation assumes the risk not covered by the Government of Canada. For receivables resulting from credit sales made outside of the CGSP and the ACF, the Corporation may enter into arrangements with commercial banks, which will assume the credit risk without recourse.

Accounts receivable from non-credit sales – Shipments are made pursuant to the receipt of appropriate letters of credit issued by commercial banks that guarantee the receipt of funds by the Corporation.

Accounts receivable from advance payment programs – The Government of Canada guarantees the repayment of the principal amount due from producers resulting from cash advances made under the *Agricultural Marketing Programs Act (AMPA),* the *Spring Credit Advance Program (SCAP)* and the *Unharvested Threshed Grain Advance Program.*

With respect to receivables from credit programs, non-credit sales and advance payment programs, as a result of these guarantees and arrangements, no provision is made with respect to the possibility of debtors defaulting on their obligations. Other receivable accounts are monitored and allowance for losses is provided for where collection is deemed unlikely.

Capital assets and depreciation

Capital assets are recorded at cost and depreciated on a straight line method over their expected useful life as follows:

Asset class	Term (years)
Computer equipment	1 to 6
Computer systems development	2 to 10
Automobiles	3
Building and office improvements	3
Office furniture and equipment	10
Hopper cars	30
Building	40
Leasehold improvements	Term of lease

Translation of foreign currencies

All monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the balance-sheet date. Exchange adjustments arising from the translation of foreign currency denominated assets or liabilities are recognized in the period in which they occur, as a component of revenue. Borrowings in currencies other than Canadian or U.S. dollars are hedged by cross-currency interest-rate swaps and currency swaps and are converted into Canadian or U.S. dollars at the rates provided therein. The Corporation hedges U.S. dollar assets and liabilities on a portfolio basis primarily by matching U.S. dollar assets to U.S. dollar liabilities.

Sales contracts denominated in foreign currencies are hedged by foreign-exchange forward contracts. Forward-exchange contracts are translated into Canadian dollars at the rates provided therein. These amounts are recorded in revenue as an adjustment to the underlying sales transactions.

Other income and expenses are translated at the daily exchange rates in effect during the year.

The net foreign-exchange gains included in operations for the year ended July 31, 2005 are $4,151 (2004 – $2,302).

Derivative financial and commodity instruments

The Corporation uses various types of derivatives, such as swaps, forwards, futures and option contracts, in order to manage its exposure to currency, interest-rate and commodity price risks. These instruments are designated as hedges and are used for risk-management purposes. These derivative contracts are initiated within the guidelines of the Corporation's risk-management and hedging policies, which provides for limited discretionary trading within the policy's trading limits. The Corporation formally documents its risk-management objectives and strategies for undertaking the hedging transaction and the relationship between the hedged item and derivative. The Corporation assesses, both at inception of the hedge and on a quarterly basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

Effective August 1, 2003, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline AcG13 Hedging Relationships. The Guideline does not change the Corporation's method of accounting for derivative instruments in hedging relationships. Hedge accounting is applied when there is a high degree of correlation between changes in fair values or cash flows of derivative contracts and the hedged items.

The Corporation recognizes derivative financial and commodity instruments as a hedge of the underlying exposure. Gains or losses on these contracts are recognized when the related underlying hedged transaction is recognized. Commodity contracts, while an economic hedge, do not qualify for hedge accounting. They are marked to market at the balance-sheet date, with the unrealized gains or losses disclosed as a component of Deferred and Prepaid expenses. When the gains or losses are realized, they are recorded in the same pool account or Producer Payment Options (PPO) program as the related sale or PPO program that is being hedged.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are recognized in the respective pool account or PPO program in the period in which the underlying hedged transaction is recognized. If the designated hedged item is no longer expected to occur prior to the termination of the related derivative instrument, realized and unrealized gains or losses are recognized in the pool account or PPO program in which the underlying hedged transaction was expected to be recognized.

Where a hedge is redesignated as a hedge of another transaction, gains and losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated.

Interest-rate contracts are used to manage interest-rate risk associated with the Corporation's funding and asset/liability management strategies. The amounts to be paid or received under single-currency and cross-currency interest-rate swap contracts are recognized in the period in which they occur, as a component of net interest earnings.

Foreign-exchange contracts are used to hedge currency exposure arising from grain sales, PPOs and funding operations. The amounts to be paid or received under forward and option contracts are recognized in the same pool account or PPO program in which the related foreign currency transaction occurs, as a component of revenue. The amounts to be paid or received from currency contracts used to hedge currency risk from funding operations are recognized in the period in which they occur, as a component of net interest earnings.

Commodity contracts are used to manage price risk arising from grain sales and PPOs. The amounts to be paid or received under futures and option contracts are recognized as a component of revenue, in the same pool account or PPO program as the related sale or PPO program that is being hedged.

Net interest earnings

Net interest earnings includes interest revenue and expenses related to accounts receivable and borrowings, bank charges, transaction and program fees on borrowing facilities and interest earned on each pool account during the pool period and until final distribution of earnings to producers.

Employee future benefits

Employees of the Corporation are entitled to specified benefits provided upon retirement or termination.

Pension plan – Effective July 1, 2003, the Corporation began administrating its own pension plan for its employees. Previously, employees participated in the *Public Service Superannuation Act (PSSA)* pension plan, administered by the Government of Canada. Currently, the Corporation is negotiating with the Government of Canada for the transfer of pension assets from the *PSSA* for employees who choose to transfer past service to the new plan. This transfer of assets from the *PSSA* will occur in the future. When the asset transfer amount is known, the value of these assets, related accrued benefit obligation and other disclosures will be presented as required by the CICA Handbook Section 3461, Employee Future Benefits.

The Corporation sponsors three defined-benefit pension plans and one defined-contribution plan. The defined-benefit components provide pensions based on years of service and average earnings prior to retirement. The defined-contribution component provides pensions based on contributions made and investment earnings. Employer contributions to the CWB Pension Plan are expensed during the year in which the services are rendered

Other post-employment benefits – The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets over the periods in which the employees render services in return for the benefits. The Corporation has adopted the following policies:

- The cost of post-employment benefits earned by employees is actuarially determined using the projected benefit cost method prorated on service and management's best estimate of salary escalation, retirement ages of employees and expected health-care costs. Post-employment benefits include health care, life insurance, long-service allowance, unused sick leave accumulated prior to 1988 and unused vacation accumulated prior to 1996.
- The transitional obligation and actuarial gains (losses) are being amortized over the Average Remaining Service Period (ARSP), which has been actuarially determined to be 12 years (2004 – 12 years).
- Amortization of actuarial gains (losses) will be recognized in the period in which, as of the beginning of the period, the net actuarial gains (losses) are more than 10 per cent of the greater of the accrued benefit obligation and the fair value of plan assets.

3. Accounts receivable from credit sales programs

	Credit Grain Sales Program	Agri-food Credit Facility	Other credit	**2005 Total**	2004 Total
Due from foreign customers					
Current	$ –	$ 49,887	$ –	**$ 49,887**	$ 72,752
Overdue	–	–	–	**–**	772,040
Rescheduled	3,853,730	–	–	**3,853,730**	4,446,391
	3,853,730	49,887	–	**3,903,617**	5,291,183
Due from Government of Canada	23,327	–	–	**23,327**	19,920
	$ 3,877,057	$ 49,887	$ –	**$ 3,926,944**	$ 5,311,103
Credit risk					
Guaranteed by Government of Canada	$ 3,877,057	$ 48,889	$ –	**$ 3,925,946**	$ 5,309,648
Guaranteed by commercial banks	–	–	–	**–**	–
Assumed by CWB	–	998	–	**998**	1,455
	$ 3,877,057	$ 49,887	$ –	**$ 3,926,944**	$ 5,311,103

Accounts receivable balances are classified under the following applicable credit programs:

Credit Grain Sales Program

Accounts receivable under this program arise from sales to Algeria, Brazil, Egypt, Haiti, Iraq, Jamaica, Pakistan, Peru, Poland and Russia. Of the $3,853,730 principal and accrued interest due from foreign customers at July 31, 2005, $2,801,215 represents the Canadian equivalent of $2,288,388, repayable in U.S. funds. Of the $5,218,431 principal and accrued interest due from customers at July 31, 2004, $3,932,454 represents the Canadian equivalent of $2,957,844, repayable in U.S. funds.

There were no overdue accounts receivable at July 31, 2005. In the previous year, these amounts were due from Iraq where payments for past credit sales had not been received on due dates and were still outstanding. This debt was rescheduled during the past year.

In the past year, the debt of Ethiopia and Zambia, which was $34,963 at July 31, 2004, was entirely paid by the Government of Canada. Of the amount, $400 represents the Canadian equivalent of $301, repayable in U.S. funds.

Russia also prepaid $589,576 of its debt during July 2005, which represents the Canadian equivalent of $486,649, repayable in U.S. funds.

Through a forum known as the Paris Club, the Government of Canada and other creditors have periodically agreed to extend repayment terms beyond the original maturity dates or to reduce the principal owed by a debtor country for a variety of reasons, including humanitarian concerns. All members of the Paris Club are obligated to grant the debtor country the same treatment. Under terms agreed to by the Government of Canada at the Paris Club, the Corporation has entered into agreements to reschedule certain receivables beyond their original maturity dates for Algeria, Brazil, Egypt, Haiti, Iraq, Jamaica, Pakistan, Peru, Poland and Russia. The terms for these reschedulings vary, calling for payment of interest and rescheduled principal for periods ranging from five to 25 years.

In addition to debt rescheduling by means of extending repayment terms, the Government of Canada has agreed to reduce the debt owed to the Corporation by Poland. Under these debt reduction arrangements, amounts that otherwise would have been paid by the debtor government are paid to the Corporation by the Government of Canada. A total of $23,327 was due from the Government of Canada as at July 31, 2005 under these debt reduction agreements. Of this amount, $10,615 represents the Canadian equivalent of $8,672 which will be repayable in U.S. funds.

There is no allowance for credit losses, as the Government of Canada guarantees repayment of the principal and interest of all credit receivables under this program.

Agri-food Credit Facility

Accounts receivable under this facility arise from sales to customers in Guatemala, Indonesia, Mexico and Peru. The July 31, 2005 balance of $49,887 (principal and accrued interest) due under the Agri-food Credit Facility (ACF) represents the Canadian equivalent of $40,754 repayable in U.S. funds. The July 31, 2004 balance of $72,752 (principal and accrued interest) represents the Canadian equivalent of $54,721 repayable in U.S. funds.

There have been no ACF defaults to date and there are no outstanding ACF balances that are overdue. Management considers this balance collectable in its entirety; therefore, there is no allowance for credit losses.

Fair value

All accounts receivable resulting from sales made under credit programs as at July 31, 2005 have contractual interest-rate repricing dates under 365 days. As a result of the short terms to the repricing dates of these financial instruments, fair value approximates the carrying values.

Maturities

These accounts receivable mature as follows:

	2005	2004
Amounts due:		
Within 1 year	**$ 1,042,007**	$ 592,335
From 1 – 2 years	**509,025**	549,318
From 2 – 3 years	**533,056**	570,417
From 3 – 4 years	**770,889**	600,447
From 4 – 5 years	**106,624**	692,569
Over 5 years	**965,343**	1,533,977
Overdue	–	772,040
	$ 3,926,944	$ 5,311,103

4. Accounts receivable from advance payment programs

	Agricultural Marketing Programs Act	*Prairie Grain Advance Payments Act*	Spring Credit Advance Program	Unharvested Threshed Grain Advance Program	**2005 Total**	2004 Total
Due from producers	$ 104,955	$ –	$ 212,377	$ 207	**$ 317,539**	$ 301,804
Due from (to) Government of Canada	(332)	(1)	870	(7)	**530**	716
Due from (to) agents of the CWB	19,374	–	(3,649)	–	**15,725**	16,256
	$ 123,997	$ (1)	$ 209,598	$ 200	**$ 333,794**	$ 318,776

The Corporation administers the cash advance programs for wheat, durum and barley producers in Western Canada on behalf of the Government of Canada. The Government guarantees the repayment of advances made to producers; therefore the Corporation is not exposed to credit risk. The Corporation recovers its costs of administering the programs from the Government and from producers using the program.

The Government of Canada introduced the *Agricultural Marketing Programs Act (AMPA)* in 1997 to provide producers with cash flow by advancing money for grain stored on the farm. This program replaced a previous Government of Canada program under the *Prairie Grain Advance Payments Act (PGAPA).* The Government of Canada pays interest on advances up to $50 and the producer pays interest on any amounts in excess of $50

The Government of Canada introduced the *Spring Credit Cash Advance Program (SCAP)* in the spring of 2000 to assist producers with spring seeding costs. The program enables producers to receive up to $50 with interest paid by the Government of Canada. Any balances outstanding under the program will reduce the interest-free and maximum entitlements available to the producer in the fall under the *AMPA*.

The Government of Canada introduced the *Unharvested Threshed Grain Advance Program* in the 2002-03 crop year. The program provides cash flow to farmers who are unable to harvest their grain due to early snowfall. The program enables producers to receive up to $25 with interest paid by the Government of Canada. Any balances outstanding under the program will reduce the interest-free and maximum entitlements available to producers in the fall under the *AMPA*.

Cash advances issued during the year by the Corporation under these programs totalled $650,187 including $434,353 issued under the *AMPA*, $215,549 issued under the *SCAP* and $285 under the *Unharvested Threshed Grain Advance Program*.

Collections from producers and grain companies subsequent to reimbursement by the Government of Canada, plus interest on default accounts collected from producers, are remitted to the Government of Canada as these amounts are received.

Due to the timing of producer deliveries and subsequent remittance by the agent to the Corporation, a component of advance receivables is due from agents.

5. Inventory of grain

Inventory of grain at July 31 is reported at values ultimately expected to be received as sale proceeds as follows:

	2005		2004	
	Tonnes	Amount	Tonnes	Amount
Wheat	2 752 083	$ **492,078**	2 334 701	$ 520,125
Durum	1 315 303	**261,581**	1 065 995	247,404
Designated barley	231 103	**44,654**	465 267	96,592
Barley	208 805	**28,840**	52 660	7,148
	4 507 294	$ **827,153**	3 918 623	$ 871,269

6. Deferred and prepaid expenses

	2005	2004
Net results of hedging activities applicable to subsequent pool accounts	$ **1,504**	$ (26,070)
Prepaid cost of moving inventory to eastern export position	**16,344**	15,663
Deposits on commodity margin accounts	**15,854**	15,325
Purchase and lease-renewal options on leased hopper cars	**3,369**	3,859
Other	**3,116**	1,316
	$ **40,187**	$ 10,093

7. Capital assets

	2005			2004		
	Cost	**Accum deprec.**	**Net book value**	Cost	Accum deprec.	Net book value
Computer systems development	$ **68,137**	$ **39,659**	$ **28,478**	$ 61,113	$ 32,003	$ 29,110
Hopper cars	**82,768**	**70,353**	**12,415**	83,130	67,890	15,240
Computer equipment	**17,592**	**13,642**	**3,950**	16,656	12,142	4,514
Furniture and equipment	**5,312**	**3,986**	**1,326**	4,992	3,778	1,214
Land, building and improvements	**8,987**	**7,844**	**1,143**	8,679	7,694	985
Automobiles	**561**	**214**	**347**	508	135	373
Leasehold improvements	**158**	**158**	**–**	158	158	–
	$ **183,515**	$ **135,856**	$ **47,659**	$ 175,236	$ 123,800	$ 51,436

The Corporation purchased 2,000 hopper cars in 1979-80 at a cost of $90,556. Of these, 172 cars have been wrecked and dismantled, leaving 1,828 in the fleet. The Corporation is reimbursed for destroyed cars under an operating agreement with the Canadian National Railway.

8. Borrowings

The Corporation issues debt in world capital markets. The Corporation's borrowings are undertaken with the approval of the Minister of Finance. The borrowings are unconditionally and irrevocably guaranteed by the Minister of Finance on behalf of Her Majesty in right of Canada through an explicit guarantee included in *The Canadian Wheat Board Act.*

Short-term borrowings consist of commercial paper issued by the Corporation in the Canadian, United States and Euro markets, bank loans and medium-term notes with remaining maturities of less than one year. The Corporation uses swaps in the same notional amounts and with the same terms as the underlying borrowings to convert the currency exposure to either the Canadian dollar or the U.S. dollar.

Long-term borrowings are notes issued in the Domestic and Euro Medium Term Note market with an original term to maturity between one and 15 years. The majority of the Corporation's long-term notes are structured securities where interest is calculated based on certain index, formula or market references and are redeemable by the Corporation before maturity, due to embedded call features. The Corporation uses swap contracts to mitigate currency risk and manage interest-rate risk associated with long-term borrowings. These contracts ultimately create a floating rate obligation similar to that of the Corporation's short-term borrowings and ensure that the Corporation will receive proceeds from the swap to offset currency and interest-rate fluctuations on the notes' principal and interest payments.

	Effective interest rate (%)	2005	2004
Short-term borrowings	2.10 – 3.74	**$ 3,320,681**	$ 5,612,617
Long-term borrowings	1.55 – 3.59	**1,662,298**	1,455,046
Accrued interest	–	**27,068**	19,130
Total borrowings	1.55 – 3.74	**5,010,047**	7,086,793
Less temporary investments	2.50 – 3.28	**(859,519)**	(1,604,658)
Net borrowings	1.55 – 3.74	**$ 4,150,528**	$ 5,482,135

Of the net borrowings at July 31, 2005, $2,864,270 represents the Canadian equivalent of $2,340,006 that will be repayable in U.S. funds. Of the net borrowings at July 31, 2004, $3,720,270 represents the Canadian equivalent of $2,798,247, repayable in U.S. funds.

These borrowings mature as follows:

	2005	2004
Amounts due:		
within 1 year	**$ 3,347,748**	$ 5,631,747
from 1 – 2 years	**30,603**	9,495
from 2 – 3 years	**42,844**	59,828
from 3 – 4 years	**24,482**	26,590
from 4 – 5 years	**212,759**	59,828
over 5 years	**1,351,611**	1,299,305
	$ 5,010,047	$ 7,086,793

After giving effect to interest-rate swaps, all borrowings have contractual interest-rate repricing dates of 365 days or less and, as a result, carrying values of these borrowings approximate their fair values.

9. Accounts payable and accrued expenses

	2005	2004
Accounts payable and accrued liabilities	**$ 115,060**	$ 77,155
Expenses incurred subsequent to July 31 for marketing activities on behalf of the current year pool accounts	**33,628**	52,106
Deferred sales revenue	**7,602**	20,350
	$ 156,290	$ 149,611

10. Liability to agents

	2005	2004
Grain purchased from producers	**$ 452,309**	$ 467,957
Deferred cash tickets	**56,286**	74,556
	$ 508,595	$ 542,513

Grain purchased from producers

Grain companies, acting in the capacity of agents of the Corporation, accept deliveries from producers at country elevators and pay the producers on behalf of the Corporation based on the initial payment rates that are in effect at the time. The Corporation does not make settlement for these purchases until the grain is delivered to the Corporation by the agents at terminal or mill position. The liability to agents for grain purchased from producers represents the amount payable by the Corporation to its agents for grain on hand at country elevator points and in transit at July 31, for which delivery to and settlement by the Corporation is to be completed subsequent to the year-end date.

Deferred cash tickets

Grain companies, acting in the capacity of agents of the Corporation, deposit in trust with the Corporation an amount equal to the value of deferred cash tickets issued to producers for Corporation grain. The Corporation returns these funds to the grain companies to cover producer-deferred cash tickets maturing predominantly during the first few days of the following calendar year.

11. Liability to producers – undistributed earnings

Undistributed earnings represent the earnings generated from the current pools, accrued at July 31, that have not yet been distributed to producers. Of the undistributed earnings, totalling $386,752 (2004 – $462,321), $183,706 (2004 – $257,221) was distributed to producers in an interim payment on October 25, 2005. The balance of $203,046 (2004 – $205,100) will be distributed to producers through final payments and producer car rebates.

12. Provision for Producer Payment expenses

The amount of $1,741 (2004 – $2,241) represents the balance of the reserve for producer-payment expenses of pool accounts that have been closed. Six years after particular accounts have been closed, the remaining reserves for these pools may be transferred to the Special Account upon authorization of the Governor-in-Council.

13. Special Account – net balance of undistributed payment accounts

In accordance with the provision of Section 39 of *The Canadian Wheat Board Act,* the Governor-in-Council may authorize the Corporation to transfer to a Special Account the unclaimed balances remaining in payment accounts which have been payable to producers for a period of six years or more. In addition to providing for payment of proper claims from producers against these old payment accounts, the Section further provides that these funds shall be used for purposes as the Governor-in-Council, upon the recommendation of the Corporation, may deem to be for the benefit of producers.

The activity in the Special Account is comprised of:

		2005		2004
Beginning of year	**$**	**4,060**	$	4,948
Transfer from payment accounts		**657**		247
Expenditures		**(822)**		(1,132)
Payments to producers against old payment accounts		**(15)**		(3)
End of year	**$**	**3,880**	$	4,060
Ending balance comprised of:				
Unexpended authorizations	**$**	**714**	$	978
Not designated for expenditure		**3,166**		3,082
	$	**3,880**	$	4,060

During the year ended July 31, 2005, the balance from payment accounts for 1996 wheat, 1997 wheat, 1997 durum and 1997 designated barley were transferred to the Special Account under Order-in-Council P.C. 2005-921.

Program activity during the 2004-05 crop year is detailed as follows:

		Unexpended at beginning of year		Authorized		Expended		Expired		Unexpended at end of year
Market development program	$	342	$	–	$	(21)	$	–	$	321
Canadian International Grains Institute										
Capital expenditures		405		–		(198)		–		207
University of Manitoba										
Agribusiness chair		75		–		(75)		–		–
Scholarship program		6		393		(363)		–		36
Fusarium Head Blight research										
Project for barley		–		165		(165)		–		–
Variety Identification Project (VIP)		150		–		–		–		150
	$	978	$	558	$	(822)	$	–	$	714

14. Contingency fund

The Canadian Wheat Board Act provides for the establishment of a contingency fund. The contingency fund can be populated through a variety of mechanisms, including the results of operations of the Producer Payment Options (PPO) program, or other sources of revenue received in the course of operations. *The Contingency Fund Regulation* provides that the balance of the fund cannot exceed $50 million. The components of the contingency fund are described below:

Producer Payment Options program

The Corporation has implemented payment alternatives for producers. The Fixed Price Contract (FPC) and Basis Payment Contract (BPC) provides producers with the opportunity to lock in a fixed price or basis for all, or a portion of their grain, by October 31, three months after the beginning of the crop year. Full payment for the grain is received immediately after it has been both delivered and priced, and the producer is not eligible for other payments from the pool account. The Early Payment Option (EPO) provides producers with a greater portion of their expected final pool price at time of delivery, while still remaining eligible for other payments from the pool account. The Pre-delivery Top-up (PDT) provides producers who have taken a fall cash advance to apply for an additional per-tonne payment for their grain prior to delivery. Repayment is received through subsequent payments made by the farmer, in accordance with the farmer's deliveries. Producers who participate in the PDT are charged an administration fee, with any surpluses credited to the contingency fund.

The surplus or deficit arising from the operation of these programs is transferred to a contingency fund, so that net operating results will not affect the pool accounts.

Other

As provided for under *The Canadian Wheat Board Act,* interest earnings from the barley pool have been transferred to the contingency fund. The transfer amount is based on a specific formula approved by the board of directors. The formula ensures that a fair amount of interest earnings, on a per-tonne basis, is allocated to the barley pool and the distorting effect of certain costs in years when pool volume is unusually low is mitigated. Consistent with the treatment applied to the pools and PPO program, the surplus is not specifically funded and earns interest at the Corporation's weighted-average cost of borrowing.

For the current year, the surpluses from the PPO programs that should be transferred to the contingency fund would result in the balance exceeding $50 million. As a result, combined with the requirement in *The Canadian Wheat Board Act* that all revenue generated less the cost of operations be distributed, $7.5 million has been distributed to the participants of the pool accounts.

The 2002-03 wheat pool deficit payment from the Government of Canada and related accounting treatment between the wheat pool account and the wheat EPO accounts resulted in a charge of $1,288,663 to the contingency fund.

The contingency fund balance at July 31, 2005 is detailed as follows:

	Producer Payment Options program						**2005**	2004
	Wheat	Durum	Des. barley	Barley	PDT	Other	**Total**	Total
Opening surplus, beginning of year	$ 3,795	$ 185	$ 385	$ 1,470	$ –	$ 12,618	**$ 18,453**	$17,235
Transferred from pool accounts	–	–	–	–	–	2,278	**2,278**	–
Surplus from PPO program	26,943	219	172	228	4	–	**27,566**	2,229
Interest earned on non-program fund balances	–	–	–	–	–	315	**315**	278
Adjustment related to 2002-03 EPO program	–	–	–	–	–	–	**–**	(1,289)
Closing surplus, end of year	$ 30,738	$ 404	$ 557	$ 1,698	$ 4	$ 15,211	**$ 48,612**	$18,453

15. Inventory adjustments

Inventory adjustments captures the related dollar impact, at the current initial price, of changes in grade and protein of the grain delivered by producers from the grain that is ultimately available for sale.

Overall promotion in the grain handling system is disclosed as an expense to the pool, because the Corporation compensates grain companies for the increase in current initial-price value created by positive blending activities. Generally, there is an overall benefit to the pool to the extent that the greater sales value returned to the pool from selling higher-quality grain exceeds the increase in the initial value.

In the case of demotions, the opposite is true. The pools' overall sales value will be lower from having lower-quality grain to sell, compared to that which was reported and upon which the Corporation must still make future adjustment, interim and final payments. This loss is partially mitigated because the grain companies are only reimbursed the value of the lower-quality grain, whereas they have paid the farmer the higher initial price of the higher-quality grain originally reported as delivered.

16. Other grain purchases

Other grain purchases is primarily made up of late receipts, inventory overages and inventory shortages. Late receipts arise from producers' deliveries subsequent to the previous pool period close. Overages and shortages occur when the Corporation's agents' inventory records differ from those of the Corporation. Acquired overages and late receipts are recorded as an expense to the pool, with the pool benefiting to the extent that the ultimate sales proceeds of this grain exceed its cost. Shortages must be settled by the Corporation's agents at export price so that the pool is not negatively impacted by the disappearance of recorded stocks.

17. Other direct expenses

Other direct expenses is primarily made up of program expenses, agents' commissions, fees for inspection and testing of grain, Corporation-owned and leased hopper cars and demurrage.

18. Other income

Other income is primarily made up of the Freight Adjustment Factor recovery and recovery of charges, deducted by the Corporation's agents at time of producer delivery, which were subsequently not incurred by the agent. The most significant charge recovered is the recovery of the rail-freight cash ticket deduction when grain moves to a location other than terminal position.

As discussed in Note 14 Contingency Fund, a portion of the surpluses generated by the PPO program was distributed to the participants of the pool accounts. These surpluses amounted to $7,500 and were included in Other Income.

19. Administrative expenses

	2005	2004
Allocated as follows:		
Wheat pool	$ 47,508	$ 45,362
Durum pool	13,663	11,288
Designated barley pool	6,262	7,838
Barley pool A	104	3,093
Barley pool B	1,675	–
Total to pools	69,212	67,581
Wheat FPC/BPC PPO program	299	255
Producer payment accounts	479	172
Administrative expenses	$ 69,990	$ 68,008

Administrative expenses, less the expenses attributable to the distribution of final payments and the incremental costs related to the PPO program, is allocated to each pool on the basis of relative tonnage.

20. Commitments

Hopper car leases

The Corporation administers leases for grain hopper cars for the Government of Canada, with lease terms of 25 years expiring in 2006. Of the 1,750 cars leased under the original agreements, 86 have been wrecked and dismantled, leaving 1,664 cars in this fleet. All lease costs to the end of the original lease periods are recoverable from the Government of Canada and not charged to the pool accounts. Total payments associated with these leases for the year ended July 31, 2005 were $13,518 (2004 – $14,630).

In 1995, the Corporation purchased an option to extend the lease agreement on 250 hopper cars for a five-year term at a bargain lease rate. Effective October 1, 2000, the Corporation exercised this right on the 244 remaining cars. The cost of the option is being amortized over the term of the five-year extension. The lease payments under this lease-extension option are not recoverable from the Government of Canada and will be paid directly by the pool accounts. Effective April 2001, the Corporation sublet the remaining 241 cars to a third party for a term expiring October 2005. The Corporation terminated both the lease and sub-lease on October 10, 2005.

Between 1991 and 1995, the Corporation purchased options to acquire 1,550 of the Government of Canada cars at the end of the lease terms in 2006. Of these cars, 77 cars have been wrecked and dismantled, leaving 1,473 cars, which may be purchased at a total cost of $17,393 in U.S. dollars. The cost of these options is recorded in Deferred and Prepaid Expenses. On June 30, 2005, the Corporation gave the lessors notice to purchase these cars. Purchase dates have been set between December 30, 2005 and July 2, 2006.

On September 28, 2005, the Corporation exercised its right of first refusal to purchase 191 hopper cars relating to a lease agreement for which a purchase option did not exist. These hopper cars will be purchased by the Corporation on January 2, 2006 at an approximate cost of $2,865 in U.S. dollars.

Operating leases

The Corporation has entered into operating leases for premises and office equipment. Lease terms are for periods ranging from one to six years, expiring between August 2005 and October 2011. The Corporation has the option to renew most of these leases for additional terms ranging from one to three years. Total lease payments for premises and office equipment expensed in the year ended July 31, 2005 were $747 (2004 – $876).

Lease costs on premises and office equipment are charged to Administrative Expenses. Commitments under operating leases are as follows:

	Hopper cars (US$)	Premises and office equipment (Cdn$)
2006	93	591
2007	–	217
2008	–	79
2009	–	52
After 2009	–	60

Capital leases

The Corporation is transitioning its vehicles from company-owned to capital-lease arrangements. The first set of vehicles was transitioned August 1, 2005, with the last vehicle being leased by June 2007. These capital leases will be accounted for in 2005-06 as an acquisition of an asset (net of accumulated amortization) and an assumption of an obligation. The vehicles under the capital lease will be amortized on a straight-line basis over their economic life. Estimated future payments on vehicles leased to November 17, 2005 are:

	Vehicles (Cdn$)
2005-06	41
2006-07	48

Other

The Corporation has agreed to fund the operations of the Canadian International Grains Institute (CIGI) for a base amount of $1,666 annually, through to 2008.

21. Derivative financial and commodity instruments

The Corporation enters into single and cross-currency interest-rate swap contracts to manage its funding costs and to implement asset/liability management strategies designed to reduce exposure resulting from currency and interest-rate fluctuations.

The Corporation also enters into foreign-exchange forward and currency-swap agreements with financial institutions to hedge currency exposure arising primarily from grain sales and funding operations.

These financial instruments qualify for hedge accounting and are not recognized in the Balance sheet. As at July 31, 2005 the total notional amount of these financial instruments, all having maturity or rate reset dates within one year, is as follows:

	2005			2004		
	Notional amounts	**Net fair value**	**Credit risk**	Notional amounts	Net fair value	Credit risk
Interest-rate contracts						
Single-currency interest-rate swaps	**$ 645,779**	**$ 2,718**	**$ 9,815**	$ 732,575	$ (2,791)	$ 3,737
Cross-currency interest-rate swaps	**1,075,779**	**(13,698)**	**32,757**	722,471	(24,560)	8,125
	1,721,558	**(10,980)**	**42,572**	1,455,046	(27,351)	11,862
Foreign-exchange contracts						
Forwards	**1,046,171**	**9,106**	**14,091**	1,412,962	24,253	29,084
Currency swaps	**157,014**	**(502)**	**1,756**	815,372	(6,519)	6,879
	1,203,185	**8,604**	**15,847**	2,228,334	17,734	35,963
	$ 2,924,743	**$ (2,376)**	**$ 58,419**	$ 3,683,380	$ (9,617)	$ 47,825

As of the statement date, all foreign-exchange contracts mature within one year. The interest-rate contracts with maturities between less than one year, one and five years and beyond five years had notional amounts outstanding of $27,582, $310,687 and $1,383,383 respectively. The swap contracts rates ranged between 1.55 per cent and 3.59 per cent.

The net fair value of interest rate and foreign-exchange contracts refers to the estimated net present value of expected future cash flows based on current market rates. These values have been derived using various methodologies including net present value analysis and quoted market prices, where available. These estimates of fair value are affected by the assumptions used and, as such, should not be interpreted as realizable values in an immediate settlement of the instruments.

Credit risk is the risk of financial loss occurring as a result of default by a counterparty on its obligations to the Corporation. The Corporation is only exposed to credit risk on contracts with a positive fair value. The credit-risk exposure is managed by contracting only with financial institutions having a credit rating that complies with the financial risk-management policies approved by the Corporation's board of directors. Master-netting agreements are used to reduce credit risk from potential counterparty default. The largest notional amount contracted with any institution as at July 31, 2005 was $938,262 (2004 – $780,784) and the largest credit risk with any institution as at July 31, 2005 was $14,921 (2004 – $8,957).

The Corporation also enters into commodity contracts, including futures and options, for wheat and barley in the exchange markets, as a normal course of business. The contracts outstanding at July 31 are carried in the financial statements at fair value.

22. Employee future benefits

Employee future benefits relates to the Corporation's pension plans and the other post-employment benefits.

Total cash payments

Total cash payments for Employee future benefits, consisting of cash contributed by the Corporation to its defined-benefit and defined-contribution plans, plus cash payments made directly to employee and beneficiaries and third-party service providers for the benefit plans, were $4,388 (2004 – $4,962).

Pension plans

The Corporation's pension expense for the year ended July 31, 2005 was $2,968 (2004 – $3,970).

An actuarial valuation of the Corporation's pension plan is required annually for the first three years of existence. The Corporation is not able to disclose the full pension obligation or plan assets for the year ended July 31, 2005 as required by GAAP, because the actuarial valuation is not complete, pending completion of the pension-transfer asset value.

Defined-benefit pension plan assets:

These tables include the defined-benefit components of the Corporation's pension plans, but exclude the pension-transfer value from the *PSSA* plan.

Change in fair value

	2005	2004
Balance, beginning of year	$ **5,314**	$ 427
Actual return on plan assets	**802**	205
Employer contributions	**5,065**	3,868
Employee contributions	**1,110**	1,191
Benefits and expenses	**(2,591)**	(377)
Balance, end of year	$ **9,700**	$ 5,314

The percentages of plan assets, based on market values at July 31, are:

Asset category	2005	2004
Equity securities	**59%**	43%
Debt securities	**32%**	28%
Other	**9%**	29%
Total	**100%**	100%

Defined-contribution plan:

The Corporation expensed $38 (2004 – $32) to the defined-contribution component of the Corporation's pension plan. Employees contributed $186 (2004 – $142) to the defined-contribution component of the Corporation's pension plan as at July 31, 2005. Benefits paid from the defined-contribution component were $17 (2004 – $13).

Other post-employment benefits

The Corporation measures its accrued benefit obligations for accounting purposes as at July 31, 2005. The most recent actuarial valuation was completed as of July 31, 2004 with the next required valuation as of July 31, 2007. The Corporation amended its other post-employment benefits effective August 1, 2006. The financial effect of this amendment is not known. As a result of the proposed changes, an actuarial valuation will be completed sooner than July 31, 2007.

The following tables present information related to post-employment benefit plans provided by the Corporation, including amounts recorded on the Balance sheet and the components of the cost of net benefits for the period.

Reconciliation of accrued benefit obligation:

		2005		2004
Accrued benefit obligation, beginning of year	$	26,858	$	18,616
Employee contributions		–		–
Benefits paid		(1,420)		(992)
Current service cost		904		626
Interest cost		1,655		1,106
Curtailment*		682		1,227
Curtailment recognized		(682)		(1,227)
Curtailment gain		(583)		–
Actuarial loss		4,073		7,502
Accrued benefit obligation, end of year	$	**31,487**	$	26,858

Reconciliation of the accrued obligation and plan deficit to accrued liability:

		2005		2004
Fair value of plan assets	$	–	$	–
Accrued benefit obligation		31,487		26,858
Funded status – plan deficit		(31,487)		(26,858)
Unamortized net actuarial (gain) loss		10,586		7,502
Unamortized transitional obligation		7,481		8,911
Accrued benefit liability, end of year	$	**(13,420)**	$	(10,445)

The accrued benefit liability included on the Corporation's Balance Sheet is:

		2005		2004
Accrued benefit liability, beginning of year	$	(10,445)	$	(7,668)
Current service cost		(904)		(626)
Interest cost		(1,655)		(1,106)
Benefits paid		1,420		992
Amortization of transitional obligation		(748)		(810)
Amortization of net actuarial loss		(406)		–
Curtailment*		(682)		(1,227)
Accrued benefit liability, end of year	$	**(13,420)**	$	(10,445)

* During 2003-04 and 2004-05, staff reductions resulted in curtailment, which has been fully expensed by the Corporation.

The Corporation's expense elements with respect to other post-employment benefits are:

		2005		2004
Current service cost	$	904	$	626
Interest cost		1,655		1,106
Amortization of transitional obligation		748		810
Amortization of actuarial loss		406		–
Curtailment		682		1,227
Actuarial loss		10,586		7,502
Net cost (before adjustments)		14,981		11,271
Adjustments-actuarial loss		(10,586)		(7,502)
Total expense included in Administrative expenses	$	**4,395**	$	3,769

The weighted-average assumptions at the measurement date used in the calculation of the Corporation's benefit obligation are shown in the following table:

	2005	2004
Discount rate	**5.25%**	6.25%
Rate of compensation increase	**4.00%**	4.00%
Medical cost trend rate	**10.00%**	10.00%
Medical cost trend rate declines to	**5.00%**	5.00%
Medical cost trend rate declines over	**5 years**	5 years
Dental cost trend rate	**3.00%**	3.00%

Sensitivity analysis:

Assumed medical/dental cost trend rates have a significant effect on the amounts reported. A one percentage-point change in assumed rates would have the following effects for 2005:

	Increase	Decrease
Accrued benefit obligation	$ 4,570	$ (3,536)
Current service and interest cost	$ 518	$ (388)

23. Contingent liability

On September 13, 2002 the North Dakota Wheat Commission (NDWC) and the U.S. Durum Growers Association filed anti-dumping (AD) and countervailing duty (CVD) petitions against imports of Canadian hard red spring wheat (HRS) and durum. On October 3, 2003, the U.S. International Trade Commission (ITC) dismissed the durum petition by a 4-0 vote. However, with respect to HRS, the ITC ruled 2-2 that Canadian HRS imports caused injury to U.S. HRS producers. As a result, AD and CVD tariffs totalling 14.15 per cent ad valorem were in place pending the completion of certain appeals launched by the CWB. The appeals, taken under NAFTA with subsequent remands to the appropriate U.S. administrative agency, were ultimately successful. The CVD tariff was reduced from 5.29 per cent to 2.54 per cent. Most significantly, however, on October 5, 2005 the ITC voted 4-1 that Canadian HRS imports did not injure U.S. producers. On October 12, 2005 the NDWC filed a challenge of the ITC's ruling with the NAFTA Secretariat. That challenge should be disposed of early in 2006. If the challenge is dismissed, all tariffs should be removed shortly thereafter.

24. Comparative figures

Certain of the prior year's figures have been restated to conform with the current year's presentation.

Glossary of financial terms

Cross-currency interest-rate swap – a contractual agreement for specified parties to exchange principal, fixed and floating interest-rate payments in different currencies. Notional amounts upon which the interest-rate payments are based are not exchanged.

Currency swap – a contractual agreement for specified parties to exchange the cash flow of one currency for a fixed cash flow of another currency.

Derivative financial instrument – a contract or security that obtains much of its value from price movements in a related or underlying security, future or other instrument or index.

Fair value – an estimate of the amount of consideration that would be agreed upon between two arm's-length parties to buy or sell a financial instrument at a point in time.

Foreign exchange forward – an agreement to buy and sell currency simultaneously purchased in the spot market and sold in the forward market, or vice versa.

Futures contract or futures – a future commitment to purchase or deliver a commodity or financial instrument on a specified future date at a specified price. The futures contract is an obligation between the Corporation and the organized exchange upon which the contract is traded.

Hedge – a risk-management technique used to decrease the risk of adverse commodity price, interest-rate or foreign-exchange movements by establishing offsetting or risk-mitigating positions intended to reduce or minimize the Corporation's exposure.

Liquidity – having sufficient funds available to meet corporate obligations in a timely manner.

Notional amounts – a reference amount upon which payments for derivative financial instruments are based.

Option – a contract that grants the right, but not the obligation, to buy or sell a commodity or financial instrument at a specified price at a specified point in time during a specified period.

Risk management – the application of financial analysis and diverse financial instruments to the control and, typically, the reduction of selected types of risk.

Single-currency interest-rate swap – a contractual agreement for specified parties to exchange fixed interest-rate payments for floating interest rate payments based on a notional value in a single currency. Notional amounts upon which the interest-rate payments are based are not exchanged.

Swap – a contractual agreement to exchange a stream of periodic payments with a counterparty.

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